Operating segments

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OPERATING SEGMENTS: THE USEFULNESS OF IFRS 8

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THE USEFULNESS OF IFRS 8

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CONTENTS

FOREWORD

IFRS 8 Operating Segments was to some extent a ground-breaking standard, as it represented the IASB's first foray into the territory of requiring companies to disclose information 'through the eyes of management'. For that reason it was contentious, with two principal issues: first, it introduced the notion of Chief Operating Decision Maker and all the concomitant difficulties that companies face in identifying who this person or committee is in their particular situation and, second, it meant that for the first time non-IFRS measures would be used to report segmental performance.

In the light of these factors, this study considers two research questions: first, it examines whether the segmental disclosures by UK companies changed after their adoption of IFRS 8 and, second, it canvasses through interview the views of users, preparers and auditors of accounts as to whether or not IFRS 8 produces more decision-useful information than was the case with its predecessor, IAS 14R.

This study is published to coincide with the IASB's post-implementation review of IFRS 8, the first such post-implementation review to take place. In addition to the interviews of users, preparers and auditors, it involved a review of the annual reports of 150 UK companies (99 FTSE 100 and 51 FTSE 250 companies) in the year before and the year after IFRS 8 was implemented. The findings of this review are that, overall, the number of segments increased on average, and the extent of the segmental note disclosure increased. Perhaps surprisingly, the review found also that the number of geographic areas disclosed under IFRS 8 increased, despite the fact that reporting requirements for geographic disclosures are now less onerous under IFRS 8 than was the case under IAS 14R.

Most interviewees suggested that segmental information was useful for decision making and welcomed the management approach, although users were still concerned that the resultant flexibility in the standard could potentially allow management to manipulate the disclosures. Issues arising from the research include: instances of a lack of consistency between the narrative sections in the annual reports and the IFRS 8 disclosure; the disclosure of commercially sensitive information; the level of aggregation; the issue of materiality thresholds; and confusion regarding the entity-wide disclosure category.

The authors conclude with several recommendations for the IASB, preparers and auditors, including: the need to issue further guidance on materiality thresholds and entity-wide disclosures; disclosure requirements for the identity of the Chief Operating Decision Maker; an explanation of any differences between the number of segments disclosed under IFRS 8 and reported elsewhere in the annual report; and a number of suggestions of issues which should be covered in a review of the standard by the IASB.

This project was funded by the Scottish Accountancy Trust for Education and Research (SATER – see page 63). The Research Committee of The Institute of Chartered Accountants of Scotland (ICAS) has also been happy to support this project. The Committee recognises that the views expressed do not necessarily represent those of ICAS itself, but hopes that the project will assist with the development of IFRS 8 and contribute to the important review of the standard by the IASB.

Allister Wilson
Convener of the ICAS Research Committee
April 2012

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EXECUTIVE SUMMARY

Background

Segmental reporting has always been a contentious issue for standard setters. The introduction of International Financial Reporting Standard (IFRS) 8 'Operating Segments' which became effective for accounting periods starting on or after 1 January 2009 is no different in this regard. This standard replaced International Accounting Standard (IAS) 14 (Revised) and converged, except for minor differences, with its US counterpart Statement of Financial Accounting Standard (SFAS) 131.

At the time when IFRS 8 was proposed by the International Accounting Standards Board (IASB) and subsequently when it was endorsed by the European Parliament, a number of concerns were raised both in submissions to the standard setter as well as in the financial press. Specifically, concern was expressed about the management approach underpinning IFRS 8 which requires disclosure of segmental information which has been prepared and measured for internal reporting to a Chief Operating Decision Maker (CODM). Worries were also highlighted about the lack of guidance in the standard as to who was the CODM, the change from primary/secondary segment disclosures under IFRS 8, and the permission for non-IFRS measures to be used when reporting on segmental performance.

These concerns were highlighted in a study by Crawford *et al.* (2010), based upon interviews with a number of individuals, prior to IFRS 8 being implemented. The concerns also emerged from a Financial Reporting Review Panel (FRRP) analysis of interim financial statements and the financial statements produced by early adopters of IFRS 8 (FRRP, 2010), which criticised the segmental disclosures that some companies had provided.

This report conducts a more detailed analysis of how a sample of UK companies implemented IFRS 8. It also reports on the views of a sample of preparers, users and auditors of financial statements about their experiences with the new standard.

Research objective and method

Two research questions are considered in this study. First, it examines whether segmental disclosure by UK companies changed after the introduction of IFRS 8. Second, it investigates whether a sample of users, preparers and auditors considered whether IFRS 8 provided more decision-useful information than its predecessor, IAS 14R.

To address the first research question, the annual reports of 150 UK companies (99 FTSE 100 and 51 FTSE 250 companies) were analysed in the year before and the year after IFRS 8 was implemented. Specifically, segmental note disclosures in the annual reports of these sample companies were examined to ascertain whether the number of segments had changed, whether the items disclosed for each segment had altered and whether the type of information provided (for example, geographic) had varied with the introduction of the new standard. Furthermore, information on the identity of the CODM and the usage of the non-IFRS measures was gathered.

To address the second research question, six preparers, seven auditors and seven users of financial statements were interviewed about their general perceptions concerning IFRS 8. They were also asked to talk about their own experiences of IFRS 8, including views on the number of segments, type of segment, segmental items disclosed by companies and other issues concerning the adoption IFRS 8.

Key findings

A number of key findings emerge. First, and in contrast to the concerns raised at the time of the standard's endorsement, the management approach of IFRS 8 has not seen a decline in the number of segments for which companies provide information. In fact the average number of business segments disclosed by the 150 companies in our sample increased from 3.30 to 3.56. In addition, the geographic information by location of customer was higher than comparable numbers under IAS 14R.

Second, while the mean number of segments actually increased, the items per segment provided by the sample of UK companies in the current study fell. A number of companies took the opportunity provided by the flexibility of IFRS 8 not to disclose segmental information on capital expenditure, liabilities and the total carrying amount of assets by location of the assets. While the number of companies disclosing a small number of segmental items increased (non-current assets, tax), total disclosure declined.

Third, only a minority of companies disclosed that they used non-IFRS measures. Thus, companies had not availed themselves of the opportunity afforded by the standard to report using non-IFRS measures. As a result, no major reconciliation items arising from the use of non-IFRS measures were reported . This view was confirmed by interviewees who suggested that the use of non-IFRS measures was infrequent. One interpretation of this finding is that the segmental information regularly reviewed by the CODM appears to be prepared according to IFRS rather than using a different [management] GAAP basis.

Fourth, although not mandatory, a majority of companies identified the CODM in their financial statements. However, differences emerged in the reporting practices of the FTSE 100 and FTSE 250 companies in terms of identifying the CODM; for example, a higher proportion of FTSE 250 companies identified the CODM than their FTSE 100 counterparts. In addition, changes to segmental reporting following the adoption of IFRS 8 also varied from one sector to another. However, irrespective of the sector or size grouping of the companies, the results suggest that the word count of the segmental note in the annual report typically increased under IFRS 8. However, there is evidence that companies' commentary about their business structures in the annual report narratives is not always consistent with the segments identified within IFRS 8 disclosures.

Fifth, and in response to the second research question, most interviewees suggested that segmental information was useful for decision making – especially among investors. In addition, a majority of the interviewees welcomed the management approach underpinning IFRS 8. However, this support for the management approach was strongest among the preparers and weakest amongst the users of company financial statements. Supporters of the management approach highlighted the benefits which users would gain from viewing segmental data 'through the eyes of management'. Critics were concerned that management might use the flexibility provided under IFRS 8 to hide unfavourable results by changing the segment definitions employed, or by altering the internal reporting processes to manage the information reported to the CODM. However, there was no evidence that these activities were occurring.

Sixth, the main issues raised about the adoption of IFRS 8 by the interviewees concerned: (i) the disclosure of commercially sensitive information; (ii) the level of aggregation involved in 'constructing' segments for the annual report; and (iii) the issue of materiality thresholds before a unit had to be identified separately in the segmental note. Preparers and auditors indicated that the explicit ruling out of an opt-out for non-disclosure of commercially sensitive information was problematic for small, new companies or new business areas. In addition, most interviewees suggested that some level of aggregation was necessary when deciding on the provision of segmental information; thus a number of respondents confirmed that there was a more 'granulated' disclosure of disaggregated information provided in the business review section of the financial statements compared to the segmental note. Some preparers would have welcomed more guidance on materiality thresholds to guide decisions about the definition of a segment.

Seventh, there appeared to be a great deal of confusion among the respondents about the new category of 'entity-wide disclosures' which were mandated under IFRS

8. Users, in particular, either did not know what these were or equated them with geographic disclosures which had previously been provided as segment data under IAS 14R. Even a number of the auditors did not seem to recognise that this category of information included more than geographic disclosures.

Overall, the issues raised by some of the interviewees and the findings that emerge from the financial statement analysis suggest that a continued review of the standard on segmental reporting (IFRS 8) would be worthwhile. Such a review was requested by the European Parliament at the time of endorsement of this standard (European Parliament, 2007) and the IASB are currently undertaking a post-implementation review of IFRS 8.

Policy implications

The findings in this report suggest a number of recommendations for the IASB.

- The IASB could issue guidance on a number of issues associated with IFRS 8:
  - materiality thresholds for defining and aggregating segments; and
  - the purpose and nature of entity-wide disclosures.
- The IASB should also consider changing the disclosure requirements in IFRS 8 to require:
  - the identity of the CODM to be disclosed in the annual report; and
  - an explanation of any difference between the number of segments in the segmental note and the number of business or geographic units referred to elsewhere in the annual report.
- The IASB might wish to consult users, preparers and auditors on the advisability of allowing an opt out for the provision of segmental data if companies believe that such disclosure will result in the publication of commercially sensitive information likely to prejudice the long-run performance of the company.
- The IASB when reviewing the operation of IFRS 8 might wish to consider a slightly longer time span than the pre and post comparison examined in the current study. In particular, a follow-up investigation of the longer-term impact of IFRS 8 might study company segmental disclosures for a number of years after the standard's introduction, possibly over 3 years, to see if each company's segmental disclosures are comparable over time.
- Further, the IASB might wish to evaluate the trade-off between providing more relevant information for users against the reduced cross-company comparability

associated with the introduction of the management approach. Users might be consulted to see if the net impact of this trade-off has proved beneficial for them.

- The IASB may wish to study whether there are other areas of reporting which might benefit from using a management approach.

The findings also suggest a number of recommendations for preparers and auditors.

- Preparers should be aware of the distinction between geographic operating segments and entity-wide information. Specifically, entity-wide disclosures are not determined by the management approach which is used to identify and measure operating segment information, and entity-wide disclosures include information about products/services and major customers, as well as information about geographic areas.

- Preparers should ensure that the narrative information in their annual reports, relating to business structure and operations, is consistent with the nature and number of operating segments disclosed in the segmental note.

- Preparers should be aware that non-disclosure of segmental information on the grounds of commercial sensitivity is not permitted by IFRS 8.

- Auditors should challenge preparers about IFRS 8 disclosures with regard to: the materiality thresholds used when deciding on entity-wide disclosures; differences between the business structure represented in the segmental note compared to elsewhere in the annual reports; and ensuring that segmental information is not being withheld on the grounds that it represents commercially sensitive information.

1. INTRODUCTION

The International Accounting Standards Board (IASB) issued International Financial Reporting Standard (IFRS) 8 'Operating Segments', a new standard on segmental reporting in 2006. This was endorsed for use in the EU on 14 November 2007 (European Parliament, 2007) and became effective for accounting periods starting on or after 1 January 2009. The new standard superseded International Accounting Standard (IAS) 14 (Revised) 'Segment Reporting' which had been mandatory before IFRS 8 was adopted. IFRS 8 converges with its US counterpart, Statement of Financial Accounting Standard (SFAS) 131, except for minor differences as noted in the Basis for Conclusions (BC), as well as terminology changes necessary to conform with other IFRSs. The core principle of IFRS 8 requires an entity to:

> *....disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.* (IFRS 8, para 1, IASB (2006a))

To follow this principle, IFRS 8 requires the disclosure of information relating to operating segments that an individual or function, known as the Chief Operating Decision Maker (CODM), uses internally to make operating decisions. This management approach requires operating segments to be identified based on internal reports that are regularly reviewed by the CODM using internal measures of segmental items; such measures may be different from international generally accepted accounting practice (GAAP) disclosures.

Segmental reporting requirements: IAS 14R versus IFRS 8

The differences between IAS 14R and the new reporting standard IFRS 8 are detailed in Appendix 1 and a number of points can be made from a comparison of the two standards. First, IFRS 8 mandates the 'management approach' to defining segments, which requires:

> *Identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance.* (IFRS 8, para IN11)

and

> *...the amounts reported for each operating segment item to be the measure reported* [internally]*...* (IFRS 8, para IN13)

IFRS 8 requires disclosure of information that has been prepared and measured for internal management decisions, rather than information that has been prepared in accordance with IFRS for stewardship and external user decisions; this became a major criticism of IFRS 8 in the financial press during 2007 when consultations were taking place about the exposure draft which led to the new standard (Neveling, 2007; Sukhraj, 2007a).

Second, in explaining the management approach, concern has been voiced about the term CODM (Sukhraj, 2007a), as IFRS 8 does not define who this person or function is or should be (IFRS 8, para 7-9). For example, Sukhraj (2007a) points out that IFRS 8 identifies:

> *…a 'decision-maker' as being responsible for picking company segments. Who is that….? It could be anyone from the financial director, chief financial officer or company board. The standard hands over all power to that decision maker to judge exactly which areas are segments of the business to report on. And it goes on still further to give that decision maker a wide berth to change his or her mind on segments from one year to the next.*

IFRS 8 itself suggests that the CODM could be "the chief executive officer or the chief operating officer, or … a group of executive directors … or, the board of directors, … or segment manager" (IFRS 8, para 7-9) and aligns it with the function of allocating resources to, and assessing the performance of, the operating segments of the entity. Indeed, the term CODM was taken from the US standard on segmental reporting (SFAS 131: FASB, 1997); while the term may have a specific meaning within a US context, it is not referred to in other IFRSs.

Further, while IAS 14R mandated disclosure of geographical segmental information, IFRS 8 only requires the disclosure of details about geographical operating segments if this information is prepared for internal reporting purposes (IFRS 8, para 5). Additional entity-wide geographical disclosures are required for the reporting company unless "the necessary information is not available and the cost to develop it would be excessive" (IFRS 8, para 33). These entity-wide disclosures are limited to reporting revenues from external customers and non-current assets, and distinguishing between the entity's country of domicile and foreign countries in total, but are measured on an IFRS basis and may therefore be inconsistent with the basis employed under the management approach in the rest of the segmental note. Where an individual foreign country is considered material, then country-level disclosure is required. However, the standard does not define 'material' and, as Herrmann and Thomas (2000) argue in relation to SFAS 131, this lack of guidance could mean that the "potential benefits of country-level disclosure may never be realised" (p14) as reporting entities may adopt high materiality thresholds. Indeed, Sukhraj (2007b) suggests that investors are "spitting mad.... [and] perturbed by the removal of geographical segmentation which they deemed as important to them". The European Parliament also expressed concern, at the time of endorsement, that disclosure of geographical information might be reduced and did not fully agree with the EC's analysis of the impact of IFRS 8 in this regard (European Parliament, 2007). The European Parliament in its endorsement of IFRS 8 requested that the Commission "…follow closely the application of IFRS 8 and report back to Parliament no later than 2011" (European Parliament, 2007). Indeed, the IASB gave a commitment to undertake a post-implementation review of IFRS 8 (IASB, 2011), which, at the time of writing, is currently underway.

A number of commentators have expressed some concern that the information produced for internal decisions, that forms the basis for disclosures of operating segments under IFRS 8, need not comply with IFRS measurements (IASB, 2006c), unlike IAS 14R. Critics have suggested that this may reduce the decision-usefulness of any segmental information. For example, Murphy (2007) stated that:

> *The data doesn't have to reconcile with the audited accounts, which is staggering. And they don't have to use the same process of accounting for segments as they do for the rest of the accounts. Therefore the accounts are totally and utterly open to manipulation.* (p7)

Under IAS 14R the measurement of segmental revenues, expenses, results, assets and liabilities were defined whereas IFRS 8 only requires an explanation of how segmental results and assets have been measured (IFRS 8, para 27) and to reconcile "the total segment amounts to the amounts recognised in the entity's financial statements" (IFRS 8, para 28). Indeed, there may be a sizeable reconciling item which conflates unallocated items, such as overhead expenses, with differences arising from non-IFRS measures, to ensure that 'total segmental amounts' reconcile to the total figures reported in the primary financial statements. In this respect, IFRS 8 requires material reconciling items to be disclosed separately and explained, but it does not define what is meant by the term 'material' (IFRS 8, para 28).

Such concerns were also raised during the IASB consultation process prior to the adoption of IFRS 8 . The main objectors to IFRS 8 were Non-Governmental Organisations (NGOs) and charities, many of whom submitted comments to the IASB during the exposure draft (ED) consultation process under the umbrella body of the Publish What You Pay (PWYP) coalition. In particular, objections to the standard were raised about the fact that there would be a lack of comparability between companies as management could choose what to disclose and management in different companies might opt to disclose similar information in many different ways. Further, unease was expressed that companies might not disclose as much disaggregated information under IFRS 8 as they were currently doing under IAS 14R. This problem was highlighted for companies operating in the mineral and extraction sectors within developing countries. NGOs and charities were concerned that information about such companies and the magnitude of payments made to governments and officials in these countries would not be divulged; thus, they suggested that the accountability of these companies could be undermined (Gallhofer and Haslam, 2007).

Very little research has been published about the possible impact of this IFRS 8 on the reporting activities of affected companies. One exception to this generalisation is a paper by Crawford *et al.* (2010) which sought the views of a small sample of preparers, auditors, regulators and users in 2008-09 about the likely consequences of implementing IFRS 8. The main conclusion of this study, which contradicts the concerns expressed during the ED 8 consultation process, was that "respondents were not very concerned about the aspects of IFRS 8 that were different from its predecessor standards" (p27). For example, a majority of those interviewed saw the introduction of the management approach for the identification of operating segments as 'unproblematic'. In addition, most interviewees thought that the absence of mandatory geographical disclosures for operating segments was uncontroversial. Some of those interviewed suggested that companies would continue to publish geographical information because this data was provided to the CODM. Indeed, the greatest areas of concern about IFRS 8 related to the identity of the CODM and the reporting of non-IFRS information for segments. Analysts who included segmental information in their equity valuation models were concerned about the possible size of any difference between the non-IFRS segmental disclosures and the figures reported in the consolidated financial statements. In addition, preparers indicated that information reported internally to the CODM might change as a result of compliance with the management approach to disclosure required under IFRS 8.

The findings of Crawford *et al.* (2010) must be tempered by the fact that most of their interviewees were waiting to see the initial disclosures under IFRS 8 in the financial statements issued for accounting periods beginning on or after 1 January 2009. In its press release on 4 January 2010, the Financial Reporting Review Panel (FRRP) in the UK expressed "concern about how companies are reporting the performance of key parts of their business in the light of the introduction of IFRS 8". Following a review of a sample of interim financial statements for 2009 and the annual reports of 'early adopters' for 2008 the panel asked several companies to supply additional information where:

- only one operating segment is reported, but the group appears to be diverse with different businesses or with significant operations in different countries;

- the operating analysis set out in the narrative report differs from the operating segments in the financial statements;
- the titles and responsibilities of the directors or executive management team imply an organisational structure which is not reflected in the operating segments; or
- the commentary in the narrative report focuses on non-IFRS measures whereas the segmental disclosures are based on IFRS amounts. (FRRP, 2010)

In addition, the FRRP reminded companies that "…no exemption is given from any aspect of IFRS 8 on the grounds that disclosure would be commercially prejudicial".

The impact of this new standard therefore seemed worthy of study and this report, therefore, examines the effect of IFRS 8 by analysing the annual reports of a large sample of companies and interviewing a group of preparers, auditors and users of financial statements.

2. RESEARCH OBJECTIVE AND METHOD

This study examines: (i) whether disclosure changed after the introduction of IFRS 8; and (ii) whether stakeholders considered that IFRS 8 provided more decision-useful information than its predecessor IAS 14R. To answer the first research question the annual reports of 99 FTSE 100 companies and a sample of 51 smaller companies from the FTSE 250 were analysed before and after the introduction of IFRS 8; the sample thus included 150 UK companies as at 31 December 2009. The FTSE 100 sample only includes 99 companies as Shire plc was excluded because the only accounts available were prepared in accordance with US GAAP. The FTSE 250 sample of 51 companies was randomly selected from companies ranked from 101 to 350 in terms of market capitalisation. Appendix 2 provides a full list of the 150 companies included in the sample.

The segmental note disclosures in the annual reports of the sample companies were analysed (or 'coded') pre and post the introduction of IFRS 8, and changes in disclosure were documented. A research instrument was developed based on the disclosure requirements of both IAS 14R and IFRS 8. This was used to note down the relevant segmental information provided by each company in their final set of annual reports produced under IAS 14R and the first set issued under IFRS 8. Once the annual reports were analysed the results were transferred onto an Excel spreadsheet and statistics produced.

Narrative information about company segmental structures disclosed in the rest of the annual report was identified primarily by inspecting the section of the annual report which was usually called 'group structure', 'company at a glance', 'about us', or 'principal activities'. This gave the structure of the group from which segments could be identified. When this section was not available, the whole report was searched using the keywords 'division', 'geographic', 'region', 'country', and 'segment' to try and identify the group structure. If this did not yield information about a group's structure, the whole of the annual report was scanned for evidence of segments.

Having analysed the reports a number of interesting findings were revealed. These findings, together with observations made in the extant literature, were used to design a set of questions to ask three groups of stakeholders in semi-structured interviews: preparers, auditors and users. In total, 20 interviews were conducted with 6 or 7 interviewees in each stakeholder group, as shown in Table 1. Specifically, the interviewees were consulted on the usefulness of: the management approach that underpins IFRS 8; operating segment disclosures; entity-wide disclosures; non-IFRS measures; and reconciliations. Additionally they were asked about the use of the term

CODM and what it means, about disclosing commercially sensitive information and the actual changes to the number of segments, type of segment and segmental items disclosed following the introduction of IFRS 8. Specifically, interviewees were asked to talk about their own experiences as well as to comment on the findings from the analysis of financial statements in the first empirical component of this study; any concerns that interviewees had (or had heard) about the introduction of IFRS 8 and their willingness to comment on future reviews of IFRS 8 were also discussed.

Table 1 Interviewee profile and stakeholder grouping

Stakeholder group	Interviewee	Position	Sector
Preparer	P1	Company Secretary	Packaging
	P2	Chief Accountant	Utility
	P3	Group Chief Accountant	Banking
	P4	Head of Group Statutory Reporting	Insurance
	P5	Head of Financial Reporting	Banking
	P6	Accountant	Investment trust
Auditor	A1	Partner	Mid-tier
	A2	Partner	Big 4
	A3	Partner	Big 4
	A4	Partner	Mid-tier
	A5	Manager	Mid-tier
	A6	Technical Partner	Mid-tier
	A7	Partner	Big 4
User	U1	Fund Manager	Asset management
	U2	Investment Director	Asset management
	U3	Investment Director	Asset management
	U4	NGO Representative	NGO/Charity
	U5	Managing Director of company	Corporate finance
	U6	Private Investor	N/A
	U7	Analyst	Investment trust

Note: This table shows the stakeholder group of the interviewees, their position within their company and the sector to which their company belongs. The auditors interviewed were from three different Big 4 firms and three different mid-tier firms.

3. ANALYSIS OF THE ANNUAL REPORTS

The research findings first cover an analysis of the annual reports for the 150 companies that were examined around the introduction of IFRS 8. Tables 2-8 show the findings from this analysis. The results for the FTSE 100 companies are initially discussed before these are compared to the findings for the FTSE 250 sample (Tables 2-6). This is followed by an analysis of the commentary in the narrative sections of the annual report (Table 7) and an outline of the results for different sectors (Table 8).

Analysis of the annual reports: FTSE 100 companies

Number of segments

Table 2 Panel A shows that the mean number of business segments for the FTSE 100 companies increased from 3.61 segments under IAS 14R to 3.98 segments by products and services under IFRS 8, which was a statistically significant rise of 0.37 ($p = 0.02$); the actual number of segments ranged from 1 to 12 for the sample of companies studied. Table 2 Panel B shows that 27 companies reported an increase in the number of business segments for which information was disclosed, while 13 had a decrease in the number for which details were provided; for 59 companies there was no change. The geographic disclosures compared changes from IAS 14R segmental information to IFRS 8 geographical disclosures; the number of geographic areas by the location of the customer increased by a statistically significant amount from 3.91 under IAS 14R to 4.39 under IFRS 8 ($p = 0.01$). The number of geographic areas by location of the assets increased from 3.67 to 3.86, but this change was not statistically different from zero ($p = 0.29$) (Table 2 Panel A). The fact that the average number of areas increased under IFRS 8 may support the argument that the standard was an improvement on IAS 14R as a more detailed disaggregation of the consolidated financial information about both business and geographic activities on average provided users with more decision-useful information.

Table 2 Number of segments reported under IAS 14R and IFRS 8

Panel A: Mean number of business and geographic segments pre and post IFRS 8			
	FTSE 100	FTSE 250	Total sample
Business/products & services			
Pre IFRS 8	3.61	2.71	3.30
Post IFRS 8	3.98	2.75	3.56
Difference in the means	0.37*	0.04	0.26*
Geographic by location of customers			
Pre IFRS 8	3.91	3.24	3.68
Post IFRS 8	4.39	3.51	4.09
Difference in the means	0.48*	0.27	0.41*
Geographic by location of assets			
Pre IFRS 8	3.67	3.25	3.53
Post IFRS 8	3.86	3.29	3.67
Difference in the means	0.19	0.04	0.14

Panel B: Number of companies reporting a change in the number of segments			
	FTSE 100	FTSE 250	Total sample
Business/products & services			
Increase	27	8	35
Decrease	13	9	22
No change	59	34	93
Geographic by location of customers			
Increase	33	12	45
Decrease	15	9	24
No change	51	30	81
Geographic by location of assets			
Increase	31	11	42
Decrease	19	10	29
No change	49	30	79

Note: This table shows the number of segments reported before and after the introduction of IFRS 8. An asterix (*) indicates that the change in the number of segments pre IFRS 8 to post IFRS 8 is significant at the 5% level. Panel A shows the mean number of segments for the FTSE 100, FTSE 250 and total samples. Panel B shows the number of companies that increased, decreased or did not change the number of segments they disclosed. The total sample of 150 companies included 99 FTSE 100 companies and 51 FTSE 250 companies. Post IFRS 8 information includes operating segment and entity-wide disclosures for both business and geographic areas.

Items per segment and entity-wide disclosures

Panel A of Table 3 however shows that, in general, the disclosure of items of information which had been mandatory under IAS 14R, declined by a statistically significant amount (7.57 to 6.99 items) for FTSE 100 companies when the new standard was adopted (p = 0.02). However, this average change masks some sizeable variations. For example, the number of companies disclosing liabilities by segment post IFRS 8 (when the publication of such data became optional) declined by a sizeable amount from 88% to 60%. Interestingly, there was an increase in disclosure for a number of additional items under IFRS 8. Notably 9% of companies disclosed tax by segment under IFRS 8 compared to just 2% before the standard was adopted; although this figure still means that 91% of FTSE 100 companies are not responding to one of the major concerns of the PWYP coalition during the ED 8 consultation process (Murphy, 2007).

An analysis of secondary/entity-wide disclosures for the FTSE 100 companies in Panel B of Table 3 reveals that there has been a large drop in the disclosure of capital expenditure and the total carrying amount of assets by location of these assets. However, there has been an increase in disclosure of non-current assets (NCA) since IFRS 8 requires this information if it is produced internally (para 33). Clearly, current assets which had been part of the total carrying amount of assets under IAS 14R are now not being included by companies reporting NCA under IFRS 8. These changes may reduce the usefulness of the segmental disclosures since one would have thought that including current assets might have been relevant for investor decisions. Details of capital expenditure by geographical area might also have provided useful information about the areas where the business is growing and where management are investing for the future. Of course, any capital expenditure will be included as a change to the NCA figure. However, variations in NCA may also be due to other factors such as revaluations and impairments and under IFRS 8, the user will not be able to distinguish between these impacts and capital expenditure.

Panel D of Table 3 shows details about the entity-wide disclosures required by IFRS 8; over four-fifths of the FTSE 100 companies provided revenue analysed by products and services and by the geographical location of external customers. Over half provided non-current assets by geographical area. However, few disclosed any information about their major customers. The companies in the sample might have thought that such disclosures would be commercially sensitive and provide competitors with information that might damage the future prospects of the company. Alternatively, many of these large companies may not have had major customers accounting for more than 10% of revenues, which is the threshold stipulated in IFRS 8 (para 34).

Table 3 Segment disclosures by percentage of companies making the disclosure

Panel A: Primary/operating segment disclosures						
	FTSE 100		FTSE 250		Total sample	
	Pre IFRS 8	Post IFRS 8	Pre IFRS 8	Post IFRS 8	Pre IFRS 8	Post IFRS 8
Primary/operating segment disclosures (per IAS 14R)	%	%	%	%	%	%
Segment revenue to external customers	92	95	78	84	87	91
Segment revenue – intersegment transactions	45	47	29	27	40	41
Segmental result – continuing operations	92	94	73	80	85	89
Segmental result – discontinued operations	11	9	14	8	12	9
Total carrying amount of assets	92	84	78	80	87	83
Total liabilities	88	60	76	61	84	60
Capital expenditure (PPE & intangible assets)	88	83	75	65	83	77
Depreciation and amortisation	86	86	75	69	82	80
Total amount of significant non-cash expenses (with impairments)	71	61	49	27	63	49
Share of profits of associates & joint ventures	52	48	27	20	43	39
Investments in associates & joint ventures	40	35	25	22	35	31
Mean total segment disclosures (Standard deviation)	7.57 (2.60)	6.99 (2.35)	5.96 (3.49)	5.35 (2.97)	7.02 (3.02)	6.43 (2.68)
Difference in the means	-0.58*		-0.61		-0.59*	
Additional items per IAS 14R and IFRS 8	%	%	%	%	%	%
Material items of income and expense	61	58	53	57	58	57
Interest revenue	14	18	2	4	10	13
Interest expense	12	16	4	4	9	12
Income tax expense	2	9	2	6	2	8
Minority interests	2	8	0	0	1	5

Table 3 Segment disclosures by percentage of companies making the disclosure (Cont.)

Panel B: Secondary/entity-wide disclosures						
	FTSE 100		FTSE 250		Total sample	
	Pre IFRS 8	Post IFRS 8	Pre IFRS 8	Post IFRS 8	Pre IFRS 8	Post IFRS 8
Secondary/entity-wide disclosures (per IAS 14R)	%	%	%	%	%	%
Segment revenue from external customers based on location of customers	75	71	55	57	68	66
Capital expenditure based on location of assets	71	16	51	10	64	14
Total carrying amount of segmental assets based on location of assets	71	19	53	14	65	17
Mean total secondary/entity-wide disclosures (Standard deviation)	2.21 (1.27)	1.12 (0.93)	1.65 (1.48)	0.93 (0.90)	2.02 (1.36)	1.06 (0.92)
Difference in the means	-1.09*		-0.72*		-0.96*	
Additional items	%	%	%	%	%	%
Non-current assets	1	44	0	37	1	42

Panel C: Disclosures in segmental note						
	FTSE 100		FTSE 250		Total sample	
	Pre IFRS 8	Post IFRS 8	Pre IFRS 8	Post IFRS 8	Pre IFRS 8	Post IFRS 8
Disclosures in segment note	%	%	%	%	%	%
Reference to introduction of IFRS 8	92	96	98	100	94	97
Reference to management approach	41	88	35	94	39	90
Reference to CODM	12	58	10	71	11	62
Identification of CODM	2	63	2	80	2	69
Reference to non-IFRS measures	5	8	0	2	3	6

Table 3 Segment disclosures by percentage of companies making the disclosure (Cont.)

Panel D: Percentage of companies providing entity-wide disclosures - post IFRS 8 only			
	FTSE 100	FTSE 250	Total sample
Revenues from external customers by products and services	85	71	80
Revenue from external customers by geographical area	89	76	85
Non-current assets by geographical area	55	49	53
Information about major customers	17	29	21
Disclose that there are no major customers (not mandatory)	13	25	17

Note: This table shows the percentage of companies making disclosures before and after the introduction of IFRS 8. An asterix (*) indicates that the change in the number of items disclosed pre IFRS 8 to post IFRS 8 is significant at the 5% level. Panel A shows the percentage of companies in the FTSE 100, FTSE 250 and total samples making primary/operating disclosures as required by IAS 14R; the mean percentage disclosure is given along with the standard deviation in brackets. The percentage of additional disclosures required by IFRS 8 if reviewed by the CODM is also shown. Panel B shows the percentage of companies in the FTSE 100, FTSE 250 and total samples making secondary/entity-wide disclosures as required by IAS 14; the mean of these percentage disclosures is given along with the standard deviations in brackets. The percentage of additional items required by IFRS 8 is also shown. Panel C shows the percentage of companies in each sample making disclosures in the segmental note concerning the introduction of IFRS 8, the management approach, the CODM and non-IFRS measures. Reference to non-IFRS measures shows the percentage of companies that disclosed they were using non-IFRS measures for reporting segmental information. Panel D shows the percentage of companies in the FTSE 100 FTSE 250 and total sample supplying entity-wide disclosures as required by IFRS 8 after the introduction of IFRS 8.

Identity of the CODM

IFRS 8 requires disclosure of segmental information which is regularly reviewed by the CODM and the findings in Panel C of Table 3 are rather disappointing in that many FTSE 100 companies do not disclose the identity of this CODM; thus, readers of the financial statements do not know who is reviewing the information which they are provided with. The identity of the CODM may help users to assess how the group is organised and where important operating decisions are made. Although not a mandatory requirement, the absence of this information appears to be a lost opportunity for companies to provide useful information to their stakeholders.

Reconciliation information

Table 4 shows the frequency with which reconciling items to the consolidated financial statements were provided pre and post IFRS 8 for FTSE 100 companies; the statistics in this table indicate that although there is very little change, an increasing number of companies now have a reconciling item to profit before tax (PBT) rather than profit after tax (PAT); IFRS 8 does give companies the option to reconcile to PBT or PAT (para 28a). This may relate to the previous point which noted that a lot of companies seem reluctant to disclose tax at a more detailed level and are availing of the option provided in IFRS 8. The number of companies supplying a reconciliation of segment revenue to entity revenue only rose from 35% to 40% (Table 4). Indeed, there was a reduction in the number of companies supplying a reconciliation for the segment operating profits to entity operating profits (from continuing operations); it fell from 55% to 53%. In fact, only 8% of the FTSE 100 companies refer to the use of non-IFRS measures post IFRS 8 (Panel C of Table 3). This finding addresses one of the main concerns raised about the new standard; the use of non-IFRS measures does not seem to have been very prevalent.

Table 4 Percentage of companies providing reconciliation information

For what percentage of companies	FTSE 100		FTSE 250		Total sample	
	Pre IFRS 8	Post IFRS 8	Pre IFRS 8	Post IFRS 8	Pre IFRS 8	Post IFRS 8
	%	%	%	%	%	%
Does segment revenue reconcile to entity revenue from external customers?	89	87	78	82	85	85
Is there a reconciling item?	35	40	16	20	29	33
Does segment operating profit or loss reconcile to entity operating profit or loss – continuing?	82	67	71	71	78	68
Is there a reconciling item?	55	53	63	61	57	55
Does segment profit or loss reconcile to entity profit or loss – continuing?	72	74	67	69	70	72
Is there a reconciling item?	69	68	63	65	67	67
Is reconciliation to profit before tax (PBT)?	12	31	14	25	13	29
Is reconciliation to profit after tax (PAT)?	60	45	53	43	57	45
Does segment profit or loss reconcile to entity profit or loss – discontinuing?	2	2	0	0	1	1
Is there a reconciling item?	0	0	0	0	0	0
Do segment assets reconcile to entity assets?	88	80	76	76	84	79
Is there a reconciling item?	77	66	67	69	73	67
Do segment liabilities reconcile to entity liabilities?	84	58	75	61	81	59
Is there a reconciling item?	75	49	67	57	72	52

Note: This table shows the percentage of companies in the FTSE 100, FTSE 250 and total samples that provided items of reconciliation information before and after the introduction of IFRS 8. Each item in the segment note may or may not have the same value as (reconcile to) that item in the financial statements and a reconciling item may or may not be given.

Word count in segmental note

Table 5 shows that the word count in the segmental note for the FTSE 100 companies has increased overall. However, there was a large variation in the length of the segmental note with the number of words varying from a low of zero pre and post IFRS 8 to a high of 4,268 words post IFRS 8. Two companies in the sample documented a large decrease in the size of their segmental note: the number of words for Unilever Plc fell from 1,572 to 766; and in the accounts of Compass Plc the word count dropped from 1,950 to 1,050. What is apparent from the findings is that, overall, users are getting more narrative information in the segmental note accompanying the quantitative segmental disclosures; this additional explanation may have increased the decision-usefulness of segmental information since IFRS 8 became mandatory. Alternatively, companies may have been explaining the details behind the new standard which was introduced.

Table 5 Word count in the segmental note

	FTSE 100		FTSE 250		Total sample	
	Pre IFRS 8	Post IFRS 8	Pre IFRS 8	Post IFRS 8	Pre IFRS 8	Post IFRS 8
Mean number of words (standard deviation)	1057 (687)	1235 (771)	594 (416)	741 (506)	894 (643)	1060 (727)
Percentage increase in mean	16.84		24.75		18.57	
Minimum number of words	0	0	20	40	0	0
Maximum number of words	2943	4268	1449	2660	2943	4268
Median number of words	950	1013	652	676	747	849

Note: This table shows the mean number of words in the segmental note, the percentage increase in the mean number of words and the minimum, maximum and median number of words in the segmental note for the FTSE 100 and 250 and total samples before and after the introduction of IFRS 8. The standard deviations are given in brackets. A word count was not possible for 8 companies due to technical problems. For the total sample the word count for 98 companies increased, for 41 decreased and for 2 remained the same.

Geographic areas disclosed

From an analysis of geographic information shown in Table 6, it seems that the geographic groupings identified are becoming finer, but it is possible that any countries not individually identified are being allocated to a 'rest of the world' group.

Table 6 Categories of geographic areas used with IFRS 8 disclosures

	FTSE 100		FTSE 250		Total sample	
	Pre IFRS 8	Post IFRS 8	Pre IFRS 8	Post IFRS 8	Pre IFRS 8	Post IFRS 8
UK	51	62	34	42	85	104
Individual countries including the UK	132	208	79	105	211	313
Regions	46	38	19	13	65	51
Disclosure by continent	125	111	29	23	154	134
Conflating two continents	34	27	8	7	42	34
Conflating three continents	8	6	3	0	11	6
Conflating four continents	2	2	0	0	2	2
Rest of world	38	48	22	27	60	75
Emerging markets	2	3	1	1	3	4
Total	**387**	**443**	**161**	**176**	**548**	**619**

Note: This table shows the different categories of geographic areas referred to in the segmental note of the sample companies in this report. The total number of each type of geographic area identified has been broken down into nine different categories to show the level of aggregation. The UK is shown as a separate country and also within the category 'individual countries including the UK'. IFRS 8's minimum disclosure for geographic areas requires disclosure of external revenues attributed to the entity's country of domicile and also to all foreign countries in total; in our sample, not all of the companies are UK domiciled. The categories also include 'regions' which are larger than one country but smaller than a continent. The continents used in the categories are Europe, Asia, Africa, North America, South America and Australia. Disclosure by 'continent' means the number of individual continents disclosed as a separate geographic area; some companies have disclosed more that one continent as a separate geographic area, therefore the total number of continents shown in the table exceeds the number of companies in the sample. Some companies have combined two, three or four continents into geographic areas, giving rise to the category shown as 'conflating two [three or four] continents' in the table. Some companies disclose very wide geographic areas which are shown as the 'rest of the world'. Finally, some companies disclose 'emerging markets' as a separate geographic area.

Analysis of annual reports: Comparison of FTSE 250 to FTSE 100

Tables 2-6 also summarise details about the IFRS 8 disclosures of the sample of 51 companies from the FTSE 250. The number of segments reported on by these smaller companies is slightly less than those documented for FTSE 100 companies; for example there was an average of 2.75 segments (rather than the 3.98 segments for products and services of FTSE 100 companies post IFRS 8) and an average of 3.51 for geographic segments by location of customers (Table 2, Panel A). Again the operating segment disclosure of certain items declined after IFRS 8 became effective, such as total liabilities and non-cash expenses including impairments (Table 3, Panel A). However, in general this decline was not statistically significant at the 5% level. What was statistically significant for the FTSE 250 companies was the drop in geographic disclosures pre IFRS 8 (1.65) to a lower level of geographic information disclosed post IFRS 8 (0.93) (Table 3, Panel B). Disclosure about capital expenditure and the total carrying amount of segmental assets for entity-wide disclosures also decreased with the introduction of IFRS 8 for the FTSE 250 companies (Table 3, Panel B). Once the disclosure of these two items became voluntary under IFRS 8, less that 15% of FTSE 250 sample companies chose to provide capital expenditure and the total carrying amount of segmental assets.

According to Panel D of Table 3, the level of entity-wide disclosure after the introduction of IFRS 8 was generally lower for the FTSE 250 than for the FTSE 100 companies. However there was greater disclosure of information about major customers for the FTSE 250 sample (17% for FTSE 100 compared to 29% for the FTSE 250); thus these smaller companies were less reluctant to disclose information about major customers than their FTSE 100 counterparts. Also, smaller companies are arguably more likely to have major customers that meet the threshold requirements of IFRS 8 and contribute more than 10% of revenues to the segment. FTSE 250 companies were also more likely to disclose the identity of the CODM than FTSE 100 companies with 80% of the FTSE 250 disclosing the identity of the CODM as opposed to 63% of the FTSE 100 (Table 3, Panel C).

The findings in Table 4 indicate there were no sizeable changes in the percentage of FTSE 250 companies providing information about reconciling items. As with the FTSE 100 companies, a similar pattern was observed with more companies opting to reconcile to PBT, even though the option of reconciling to PAT was available under IFRS 8. The only other notable change relates a reduction the number of FTSE 250 companies providing a reconciling item for segment liabilities, which probably reflects the fact that liabilities were no longer mandated under IFRS 8. Not surprisingly, the word count in the segmental note (Table 5) was much lower for the FTSE 250 companies than for the FTSE 100 companies. However, the word count also rose with the introduction of IFRS 8 from a mean of 594 words before pre IFRS 8 to 741 words afterwards.

The pattern of disclosure of geographic area definitions within FTSE 250 companies is similar to FTSE 100 companies pre and post IFRS 8. However, geographic area definitions (Table 6) for the FTSE 250 sample are finer with a larger percentage of individual countries being used as a basis for disaggregation after the introduction of IFRS 8 than for the FTSE 100 companies. As a result the number of broad regions for which geographic information was disclosed has become much smaller. But some of this difference may be due to the fact that these are smaller companies that may not operate in very many regions.

Comparison to narrative sections of the annual reports

The IASB's conceptual framework regards comparability and consistency as enhancing characteristics of financial statement information (IASB, 2010), however, there appears to be some inconsistency in the annual reports between the segmental note and the narrative sections of the annual report for both FTSE 100 and FTSE 250 companies. For example, for the FTSE 100 sample, the mean number of segments in the segmental note post IFRS 8 is 4 (Table 7) by products and services and 4 by geography, but on average the rest of the annual report refers to 7 segments by products and services and 35 countries. Indeed the maximum number of countries one company refers to in the rest of the annual report is 180 but in the segmental note it is only 15. A further illustration of these apparent differences is the financial statements of GlaxoSmithKline (GSK) where the business review reports information by patent line and drugs while the segmental note provides data on a completely different basis for far fewer segments; as a result it was not possible to reconcile the narrative commentary in the business review of GSK with its IFRS 8 disclosures. This difference between narrative disclosures and IFRS 8 disclosures was raised as a concern by the FRRP (2010) in its analysis of interim financial statements and the annual reports of early adopters. Clearly, despite the FRRP warning, this research shows that such differences are still evident in the financial statements of some FTSE 100 and FTSE 250 companies.

Table 7 The number of segments in the segmental notes compared to the segmental information disclosed in the rest of the annual report after the introduction of IFRS 8

Segmental note	FTSE 100	FTSE 250	Total sample
Number of segments by products and services	3.98	2.75	3.56
Number of geographic segments by location of customer	4.39	3.51	4.09
Number of geographic segments by location of assets	3.86	3.29	3.67
Rest of annual report			
Number of segments by products and services	3.92	2.80	3.54
Further subdivision of segments within products and services	6.81	4.37	5.98
Number of major geographic segments	4.46	3.52	4.13
Total number of countries the company operates in	34.77	16.41	28.48

Note: This table shows the mean number of segments disclosed in the segmental note after the introduction of IFRS 8 and the mean number of segments identified in the rest of the annual report. The segments disclosed in the rest of the annual report were identified primarily by inspecting the section of the report which was usually called 'group structure', 'company at a glance', 'about us', or 'principal activities'. This gave the structure of the group from which segments could be identified. When this section was not available the whole report was searched using the keywords: division, geographic, region, country, and segment to try to identify the group structure. If this did not yield a group structure the whole of the annual report was scanned for evidence of segments.

Analysis by sectoral group

Table 8 shows the sectoral distribution of companies in the sample (Panel A) and an analysis of the mean number of segments by industry. Panel B presents the six largest sector groups in the sample: consumer goods (CG); consumer services (CS); financials (FIN); industrials (IND); oil and gas (OIL); and mining (MIN), which is a subset of basic materials industry. The inclusion of oil and gas and mining was especially useful as it could provide some context for the arguments of the PWYP whose main focus was on the tax payments of companies in the extraction industry and country-by-country reporting. The analysis also shows that companies in the financial sector are more likely to use a matrix presentation to disclose segmental information showing business activity and geographic areas together. Mining companies have the largest number of segments and companies in the consumer goods sector tend to have the fewest number (Table 8, Panel B).

Table 8 Analysis by sector

	Panel A: Number of companies in sample by sector			
	Sector	FTSE 100	FTSE 250	Total sample
1	Basic materials	11	1	12
2	Consumer goods (CG)	7	9	16
3	Consumer services (CS)	19	8	27
4	Financials (FIN)	24	12	36
5	Health care	3	1	4
6	Industrials (IND)	14	13	27
7	Oil & Gas (OIL)	8	3	11
8	Technology	4	2	6
9	Telecommunications	4	2	6
10	Utilities	5	0	5
Total	**Total**	**99**	**51**	**150**
Mines	Subset of basic materials (MIN)	10	1	11

Table 8 Analysis by sector (Cont.)

Panel B: Mean number of business and geographic segments for the six largest sectors							
Sectors		CG	CS	FIN	IND	OIL	MIN
Business/products & services							
Pre IFRS 8	FTSE 100	3.29	2.84	3.83	3.79	4.00	5.40
	FTSE 250	1.56	4.00	2.08	3.15	1.00	3.00
	Total sample	2.31	3.19	3.23	3.48	3.18	5.18
Post IFRS 8	FTSE 100	3.29	3.37	4.26	4.29	4.25	6.50
	FTSE 250	1.78	4.00	2.08	3.38	0.67	0.00
	Total sample	2.44	3.56	3.51	3.85	3.27	5.91
Geographic by location of customers							
Pre IFRS 8	FTSE 100	4.00	3.05	3.25	4.93	3.88	5.70
	FTSE 250	1.89	2.63	2.50	3.62	6.33	7.00
	Total sample	2.81	2.93	3.00	4.30	4.55	5.82
Post IFRS 8	FTSE 100	4.43	3.37	3.67	5.86	3.50	6.80
	FTSE 250	1.78	3.50	2.83	4.15	6.33	5.00
	Total sample	2.94	3.41	3.39	5.04	4.27	6.64
Geographic by location of assets							
Pre IFRS 8	FTSE 100	4.00	2.74	3.21	4.71	3.88	4.30
	FTSE 250	1.78	3.38	2.25	3.54	6.33	7.00
	Total sample	2.75	2.93	2.89	4.15	4.55	4.55
Post IFRS 8	FTSE 100	4.00	3.16	3.08	5.50	3.63	4.70
	FTSE 250	1.44	3.63	2.17	4.08	6.33	5.00
	Total sample	2.56	3.30	2.78	4.81	4.36	4.73

Note: This table shows the mean number of business and geographic segments before and after the introduction of IFRS 8. Panel A shows the distribution of the companies between the sectors identified on the Financial Times Website (2011). Panel B shows the means for the FTSE 100, FTSE 250 and total sample before and after the introduction of IFRS 8 for the six largest sectors: Consumer goods (CG), Consumer Services (CS), Financials (FIN), Industrials (IND), Oil and Gas (OIL) and Mines (MIN).

Further analysis of the disclosures provides some additional insights into differences in the segmental disclosures between sectors. Capital expenditure disclosures declined under IFRS 8 for all sectors apart from mining; in fact all mining companies in the sample reported capital expenditure by segment. The total amount of significant non-cash expenses, which includes impairment disclosure, reduced across most sectors; indeed, companies in the industrials sector were far less likely to have any impairment details disclosed by segment, potentially alleviating the PWYP coalition concerns previously raised. The mining sector was the only industry where sample companies reported more items by segment under IFRS 8 than under IAS 14R. Further, the mining sector was more likely to report tax by segment and this sector saw the biggest change from pre to post IFRS 8. Concerns from the PWYP coalition seem to have been unfounded therefore; alternatively, the pressure from this group may have encouraged mining companies to disclose more information. Oil companies disclosed the most items of information under IAS 14R and this changed very little with the introduction of IFRS 8. Financial services companies in the sample increased their disclosure by 45% and now disclose the most items of information across all sectors, followed by oil and mining companies; this increase may be a reaction to the recent global financial crisis to provide maximum information to users about financial services' operations.

Summary of results from the analysis of 150 annual reports

Overall, disclosure of segments seems to have increased with the introduction of IFRS 8 but publication of some segment items have decreased with the new standard, particularly liabilities and capital expenditure. The CODM is often not identified and the commentary in the narrative section of the annual reports is often inconsistent with the segmental note. Major customer information is often lacking but there is increased granularity of country-specific disclosures. There are some sectoral differences such as financial companies preferring a matrix structure to disclosing segmental information and mining companies disclosing more segmental and entity-wide disclosures than other sectors. However, reconciliation to profit is not always apparent and where this is provided the emphasis is now on reconciling to PBT. Tax disclosure by segment is still relatively low, suggesting that tax is not included in the measure of segment profit used, or not provided to the CODM. In summary, it appears that more segmental information is provided to decision makers and the concerns over the introduction of IFRS 8 have not been fully borne out in practice. The next part of this report analyses 20 interviews with three stakeholder groups to ascertain the reasons for some of the findings that have been reported.

4. ANALYSIS OF THE INTERVIEWS

This section considers the views of the interviewees about any variations in specific segmental disclosures that may have occurred at the time of IFRS 8's adoption; the semi-structured interviews sought to explain some of the annual report findings. Table 1 (Chapter 1) provides details about the interviewees while Appendix 3 summarises their responses about the general usefulness of segmental reporting and changes associated with the adoption of IFRS 8. The interviews were conducted between December 2010 and August 2011 with six preparers, seven auditors and seven users. The interviews were transcribed and the transcriptions analysed to ascertain the interviewees' responses to the questions in the semi-structured questionnaire.

Decision-usefulness for users

As shown in Appendix 3, the vast majority of the interviewees thought that segmental information was useful for investors. This view was consistently expressed by the user group of interviewees. For example, U3 stated that:

> [Analysts] *are interested in as much detail as possible on the discrete business sections of the company wherever it operates so that we can try and work out what sort of return they are making on those business segments…relative to their cost of capital and to gauge what sort of risks they are taking on in these business segments and how they manage these risks.*

Auditors tended to qualify their support that the segmental note in the annual report provided useful information. For instance, A2 noted that "such information was sometimes redundant [since] … analysts are [sometimes] getting this [disaggregated] information through other means". Interviewee A3 suggested that the context within which segmental information was interpreted added to its usefulness; specifically, he argued that only when "segmental reporting was linked to the OFR [operating and financial review] that [an investor really gained] an understanding of what was happening in the business". A4 argued that segmental information was more useful for users of larger companies' financial statements; in fact, he suggested that the provision of segmental information can "bear down unfairly on [smaller companies] in the sense that…it is [sometimes] obvious who they are dealing with in a key area".

This qualified support for the usefulness of segmental information was not limited to the auditors interviewed. A number of the preparers also expressed reservations about the extent to which any segmental information published in the notes to the financial statements was used in practice. Interviewee P3 expressed this view as follows:

> *Clearly some users do* [find it useful] *…Segmental reporting gives more insight…and facilitates a more granular view as to the organisation's longer term performance. I think that they claim to use* [segmental data] *to value a business but…* [preparers] *are a bit more sceptical as to whether they actually do or not.*

In addition P6 suggested that such information was useful "mainly for the more… educated investor…who wants to analyse individual business segments as opposed to just looking at [the] Income Statement and Balance Sheet".

The management approach

Having established that segmental data was, in general, thought to provide useful information, the interviewees were then asked about whether the management approach of IFRS 8 represented an improvement upon IAS 14R. Eleven of the 20 interviewees thought that the management approach of IFRS 8 supplied information which was more useful for investors. For example, A3 argued that:

> *At the end of the day, it's allowing shareholders to see the business they own in the way that managers are running it on their behalf. Basically it seems to make a lot of sense.*

Preparer P3 suggested that his preference for IFRS 8 was because "the management approach is much more useful". Indeed, he argued that this was the "way in which financial reporting should be going which was to explain the results of the organisation through the eyes of management". Preparer P4 supported the management approach since that suited the reporting function as well as the information requirements of a new CEO in his organisation:

> *When IFRS 8 came out in 2008,…we said this fits exactly with what we do and our chief decision maker just wants the* [information] *done regionally. In 2008* [therefore], *we only adopted IFRS 8 because…that is the way we want to be viewed and…it links up exactly with the way we do our management reporting.*

Preparer P6 also supported the management approach of the new standard because it was relatively easy to implement:

I think [*that the management approach] is better because it allows us to report in the same way as we manage the business. So a lot of the information is already there for us; we don't have to go off and prepare new information.* …[Also] *when this first came into play, we didn't have to go back and prepare prior-year numbers.*

While most preparers (and to a lesser extent the auditors) thought that the management approach of IFRS 8 would supply investor-shareholders with more useful information, the users of financial statements were less supportive. Preparers seemed to welcome the freedom which the management approach gave them when producing the financial statements. By contrast, a sizeable number of the users were much more suspicious about the motives of preparers and the potential of the management approach to enable preparers to avoid disclosing negative information. Three users (U3, U4 and U6, Appendix 3) rejected the notion that the management approach of IFRS 8 provided more useful information relative to what had been available under IAS 14R. For example, U6 indicated that he "couldn't live with the [management approach] personally because he didn't feel that he could rely on that [information] as an investor". Indeed, he suggested that the management approach was "open to manipulation" and a charter "for companies disguising poor performance". This sentiment was echoed by user U7 who was unsure how "manipulated IFRS was and the extent to which management could 'game'". Indeed, this user relied heavily on disaggregated information, not available publicly, provided at presentations to institutional investors. User U4 did not believe that the management approach of IFRS 8 supplanted "the obligation [of companies] to supply consistent on-going information which is of use to the long-term investor who is looking at the stewardship function". User U3 was more succinct in his criticism of IFRS 8 indicating that his "preference would be for a [through] the eyes of shareholders approach". Criticisms of the management approach of IFRS 8 were not limited to the user interviewees. For example, auditor A4 highlighted the inconsistency among standards which this approach threw up:

It is interesting that the whole basis [of IFRS 8] *is the management* [approach] *whereas in other areas, the IASB doesn't want to allow any management* [discretion].

Segmental disclosure

The next set of questions explored detailed aspects of the new segmental reporting standard. Specifically, respondents' views were sought on whether operating segments were a more useful way of disaggregating the results for an organisation rather than the primary and secondary segments approach mandated under IAS 14R. Again, there was a split in the views expressed by different groups of respondents on this issue with a majority of the preparers being supportive of the change while a majority of the users and auditors interviewed expressed concerns about the variation permitted and the lack of comparability that might emerge. The preparers generally outlined strong practical reasons as to why operating segments were more useful than the mandatory primary and secondary segments of IAS 14R. For example, P1 suggested that the disclosure of results by operating segment was "slightly better" in the sense that his organisation was "breaking out [one old primary segment] into two manufacturing businesses [or operating segments]" with the introduction of IFRS 8. P2 argued that his company "didn't really have an international [dimension to their business]" so secondary geographical information under IAS 14R "was really just a bit of box ticking" and they had stopped providing such information with the introduction of IFRS 8. P3 put forward a similar view:

> [For my company] *there has been no change. We only ever had one segment…because our overseas business is too small. There is only one practical way of cutting the business up – the operating segment approach – so we didn't really notice any change.*

The view that the move from primary/secondary to operating segments had not lead to a great deal of change was supported by a number of the auditor interviewees. For example, A1 indicated that he had not "seen a great deal of change in the amounts of disclosure or in the segments being disclosed [under IFRS 8]". However, A2 highlighted that in his view "some of the information which you used to get under IAS 14R had been lost in terms of geographic [data]". But A3 countered that "if the geographic information is important to a business…you often find that it is still there under IFRS 8". Thus, he stated that "I don't think that we have lost anything that was important".

This was not the opinion of a minority of the interviewees (U2, U4, U6, A2, A6 and P5). For example, P5 indicated that "the IAS 14R answer was better"; indeed, he added that his company "still [did] both cuts…[and liked] to talk about both [business and geographic] cuts to analysts". U4 was more critical arguing that IFRS 8 "certainly hadn't enhanced reporting" and that the other users he had spoken to "found this [operating segment data] pretty useless". His preference was for country-by-country reporting in addition to disclosing information by business activities. U6 also expressed a preference for the primary/secondary analysis which had been mandated under IAS 14R:

> *My personal preference is for* [segmental data] *by industry and geography. …I think that you need more rather than less* [segmental information]. *Why stop at a half measure. If it's important information by…geography*

or sector, depending upon the firm, [*why not disclose it*]*; if you do it, do it properly.*

The CODM

The next two questions focused on the CODM. Respondents were initially asked if it was useful to see the information that was produced internally and presented to the CODM. A follow-up question sought respondents' views on whether or not it would be useful to know the identity of the CODM and whether or not it should be disclosed in the financial statements since the standard did not mandate this. While a clear majority thought that it was useful to see information that was produced internally for the CODM, only six respondents (P3, A2, A7, U2, U4 and U6) thought that the identity of the CODM needed to be provided.

For example, preparer P1 saw "the logic of the people who own the business seeing" the information provided to management. Preparer P5 agreed that the publication of segmental information supplied to the CODM was "more meaningful…to shareholders or any reader [of the financial statements]". Auditor A3 typified the views of those respondents who suggested that although disclosure of the information seen by CODM was useful, the identity of this individual or group was less important:

> *From a personal point of view I don't think that it is* [important to know who the CODM is]. *… Does it make any difference…whether or not the CODM is the whole board,…the executive directors only or…an executive committee which combines the executive directors plus key management? I don't think that it matters a jot.*

Those who wanted the CODM's identity disclosed (e.g. U4) argued that this was a US term whose usage could cause difficulties within the UK and hence, needed to be specified within the financial statements:

> *In company law, there is only one group that is responsible and that is the board; it can't be anyone else. …This* [CODM] *term has been imported* [from the US] *without any change to UK company law. Therefore, you have a direct conflict between the board being responsible for a set of accounts and having a chief decision maker who may actually be management, quite distinct from the board.*

Others such as auditor A2 argued that there was not "enough clarity about the CODM"; he highlighted that it would be "relatively easy to be selective in identifying the CODM" in order to avoid disclosing certain information; he suggested that a CODM could be selected on the basis that this individual did not review commercially sensitive information about the company and possibly only saw very aggregated information about the units within the business.   Thus, he thought that IFRS 8 could have been "more prescriptive" about this issue to avoid situations where "management are managing who the CODM is". User U5 was "less concerned about the title [of the CODM]" and more exercised "about the function" of this individual; she wanted to know "who actually make[s] the decisions" within a company. Overall, the general consensus among the interviewees was that the CODM was either the CEO or the board; a number of preparers indicated that both of these were provided with the same information so that it did not matter which was officially designated the CODM.

Entity-wide disclosures

Perhaps one of the most consistent and surprising findings of the current study is the extent to which the interviewees did not understand what was meant by the term entity-wide disclosures. Many of the interviewees perceived that the entity-wide disclosures required by IFRS 8 were a 'replacement' for IAS 14R secondary segment disclosure of geographical information. However, entity-wide disclosures are required by IFRS 8, if the information "...is not provided as part of the reportable segments" (para 31), "...unless the necessary information is not available..." (para 32 and 33), and include: revenues from each/group of products and services; revenues and non-current assets relating to geographical areas; and information about major customers. It is interesting to note that the financial information in this regard must be reported based on IFRS measures and non-IFRS measures are not allowed.

The lack of understanding about entity-wide disclosures was very pronounced among the user interviewees; the response of U2 was fairly typical when he commented that he "probably didn't know [about such disclosures] to be honest". Others started talking about geographic information only and implied that entity-wide disclosures related to details about a company's performance in specific countries or regions without indicating an understanding that this information is no longer mandated. However, linking the concept of entity-wide disclosures to geographic details was not unique to the users. A number of the auditors also made the same connection when answering this question and did not mention any points about disclosure of major customer information or products and services. For example, A1 highlighted that "traditionally, companies reported geographic [data] as secondary segments and that has changed to entity-wide disclosures". The five interviewees who understood the question and suggested that entity-wide disclosures were useful (P6, A2, A5, A6 and U5) argued that the extra information might be beneficial to investors in large complex organisations who wanted to evaluate the performances of individual segments.

Non-IFRS measures

In general, the respondents were much more knowledgeable about the next question that sought views on the usefulness of reporting for segments using non-IFRS measures. Seven of the respondents agreed with the statement that non-IFRS measures were useful when reporting on a segment (see Appendix 3); four of these seven were preparers, two were auditors and only one (U1) was a user. Most of these preparers indicated that their companies had used non-IFRS measures when reporting on profitability, a finding that is not reflected in the analysis of 150 sets of annual reports. For example, P2 indicated that his company used "more or less IFRS with one or two things excluded". P5 agreed that this approach was fairly typical when he stated that:

> *I would say that non-GAAP measures have the greatest performance when people want to give you earnings before bad news. For example, where we took a high write down on an acquisition, there was an effort to show the results on a basis before the write down.*

Indeed, auditor A6 characterised this approach as reporting "earnings before all the bad stuff" for the different segments. Preparer P4 argued, however, that it was the presentation that was non-GAAP; he suggested that for his company "the policies that underpinned [the disclosures] were clearly GAAP" but the presentation was not;

> *We are effectively striking a profit before a series of items that we would describe as unusual by their nature or occurrence.*

He suggested that this was the information which the CODM wanted to see; he believed that such disclosures were useful to investors for forecasting. This perception that the use of non-IFRS measures when reporting segmental activity aided forecasting was confirmed by user U1. However, he qualified this opinion by highlighting that it depended upon whether "management can be trusted" adding that "some… can and some can't".

Indeed, U4 was surprised about how few companies employed non-IFRS measures when reporting on segmental performance using the management approach:

> *What surprises me…is how little change there has been in most cases. …This implies that management is working on the basis of financial reporting information which is…a really scary idea…because I don't think that the data which is used for management decisions…should be used for financial reporting…I don't believe that that is the information that the*

> *board is getting. I mean, I just don't believe that the board are only getting information spread out over 4 broad geographic areas and that somehow* [finer] *information doesn't matter to them.*

As a result he, as with other users, was suspicious that the data being disclosed was not the complete set of segmental information reviewed by the CODM.

Reconciling items

The next question asked respondents whether details about the amount and nature of any reconciling items were useful to users of financial statements. Research prior to the introduction of IFRS 8 by Crawford *et al.* (2010) had indicated concerns among analysts if the magnitude of any reconciliation item was sizeable. In general, a majority of the respondents indicated that details about the nature and amount of the reconciliation item were useful pieces of information; some 12 of the interviewees answered 'yes' to this question (Appendix 3). Most of these who answered positively suggested that the usefulness of such a reconciliation would depend on how large the item was. As U2 commented:

> *If it's more than a couple of per cent then* [I want to know] *why. You can… live with a degree of rounding, but once it gets to a meaningful number, I will phone* [*a company up*] *or drop them an email to say 'what is it'.*

The reason for this interest, according to U6, was that "there was scope in [the reconciliation item] for manipulation". He also suggested that a sizeable reconciliation item "hindered transparency…and the ability of all types of [users] to rely on the accounts"; he argued that "you have to give the [users] the ability to understand in great detail what it is they are looking at; just putting in a lump sum reconciliation item is…not good enough". Auditor A2 supported this view arguing that "the fact that you are not getting full reconciliation [would be] less than helpful". However, auditor A3 suggested that most users of financial statements "trust the company to be sensible about what is in the reconciliation items". He indicated that "he had never heard a question being asked [by users of financial statements] about reconciliation items". Further, he suggested that "the size of central overheads you're allocating are rarely going to be big enough to fundamentally shift the performance of a segment" although he did concede that "intersegment pricing might be important". In general, a number of the preparers suggested that there would always be small reconciliation amounts, such as central overheads. However, most stressed that they would not want this figure to be sizeable or users might question what was happening.

Commercial sensitivity

When asked about the issue of commercial sensitivity, a number of interviewees suggested that analysts are given more segmental information than that disclosed in the annual report. For example preparer P4 reported that; his company did a "full analysts pack" twice a year "which breaks down the information a bit more".

Preparer P3 confirmed that his company adopted a similar strategy:

> *What we tell analysts … versus what goes in this document are sometimes that far apart in terms of the granularity … There is this gap between what people want to tell the world and what we actually report … We can tell analysts various things about various, overall geographies, but we don't report all of that stuff in here* [annual report].

One reason for this aggregation of information in the financial statements was concern over the commercial sensitivity of some of the data. Auditor A1 argued that IFRS 8 probably involved potentially commercially sensitive information being published; it was information about growth in the future that readers of the accounts or potential investors wanted, but that management might not want to give. He stated that "when it comes to disclosing commercially sensitive information or information that will be significantly price sensitive, [management] would generally like to give less information on that". Preparer P1 suggested that "there's always an element of commercial sensitivity" and that a "carryover of historic commercial decisions" resulted in companies being less transparent when customers especially might be able to garner useful pricing information from segmental disclosures. He stated that "the segmentation and legal entity don't match up exactly; … the way we segment the business is different [from the legal form]".

Indeed, some interviewees suggested that companies use the rules within IFRS 8 to prevent disclosure of information about certain segments that might reveal commercially sensitive proprietary details. For example, auditor A2 noted that some companies may avoid disclosing segmental information "through [their specification of] the CODM" as somebody who was not given disaggregated or commercially sensitive information about the segments within the company. P1 argued that the thresholds within IFRS 8 could be deployed for this purpose stating that:

> *We're taking advantage effectively of the fact that one segment is over 75 …once you've accounted for 75% of your business, you don't have to worry about splitting out the rest, even if they could be quite chunky* [as segments].

According to the interviewees, the problem of disclosing commercially sensitive information was thought to be especially problematic in smaller companies. For example, auditor A4 argued that segmental disclosure was unfair to smaller companies because they did not have as many segments; therefore it might be obvious who they were dealing with in key areas. P6 expressed a similar opinion but related it to fledgling businesses or businesses that needed protection in order to grow; for these companies segmental information could be problematic and give rise to commercial disadvantages. A similar point emerged from the analysis of segmental disclosures presented in an earlier section of this report showing that FTSE 250 companies are more likely to disclose seemingly prejudicial information relating to major customers and finer geographic areas.

From a proprietary perspective, it was argued that one of the biggest groups of users of accounts was competitors; it was generally recognised by the interviewees that the practice of examining a competitor's financial statements was widespread. Information "in terms of margins and such like" (A1) could be gleaned and gave an understanding of the competitive environment and where the price(s) might be set in order to win new business going forward or to take business from competitors.

Nevertheless, some of the interviewees were more pragmatic about the sensitivity of disclosures and noted that there was a lot of information about segments in the public domain already. For example, auditor A4 noted that there was far more in the public domain than most people realised and that the commercial sensitivity of segmental information was less of an issue in practice than some commentators thought. Others agreed with this view. For example, preparer P5 argued that it would be hard to envisage a situation where something would be of sufficient commercial sensitivity to inhibit disclosure because although it was useful to look at competitors' accounts, understanding that information would always be unique to that person. Preparer P4 was a bit more circumspect and stated that only contingent liabilities and provisioning could ever be sensitive.

One possible exception to this general impression related to whether or not information could be gleaned about transfer pricing from IFRS 8 disclosures and whether companies had changed their internal reporting structures for this purpose. However an auditor, A3, claimed that a company would lose sight of the performance of their operations if they altered their reporting to avoid disclosures:

> *The transfer pricing* [question] *gets interesting because the standard is quite clear in terms of what you're supposed to put in your segmental disclosure, which is to use the same base of transfer pricing as you use for management reporting and you're supposed to disclose to what extent*

that's on an arm's length basis or agreed transfer prices; that's really the hyper sensitive stuff. On the basis that you're supposed to put your management reporting in [your segmental note] *you can't play around with it that much. There is no point in having management reporting where you go and change your transfer pricing just because you don't want to put that in your segmental reporting, because you lose sight of actually how you're managing your business.*

Decisions on segmental information and aggregation

In addition to concerns about peers examining their accounts for competitively sensitive information, interviewees also suggested that companies examined their peer's accounts, and particularly those of early adopters, in order to see how they had implemented the new standard. Preparer P4's company was the market leader whose results come out first; he therefore claimed that "other companies crib from us … if a new standard comes out and it requires explaining, we usually do the ground work"' An auditor (A1) noted that '"he first 20 or 30 companies who adopt a new standard" drive protocol going forward.

Although the analysis of the annual reports showed that there had been a slight increase in the number of segments since IFRS 8 was adopted, most interviewees had not noticed any dramatic change in this area after the standard was introduced. For example, user U1 stated that he had only noticed a slight drift towards more segmentation; auditor A1 agreed when he noted that he had not "seen a huge amount of change in terms of the definition of segments or in terms of the information that's being presented".

Nevertheless, it was clear that some companies had had discussions over the aggregation of segments and to what extent any aggregation or disaggregation should take place within the financial statements. The auditors therefore faced a challenge in determining what level of detail their clients should disclose in order to demonstrate compliance with IFRS 8. For example, preparer P3 stated that:

The segments are out of five in our annual report… but, you then have distinct units within the segments which are defined [in the financial statements, but] *which we don't talk about in this document. Then some of these units have further subunits… The justification* [for aggregating them together] *might be that business activities are not dissimilar. So we've already got five; if you go to the next level, you know, you're going to go on to ten or twelve, which is beginning to get a bit unreal … What is actually monitored by a group executive committee is … 55 business units.*

However, according to some of the interviewees, the aggregation process allowed companies to combine segments that they did not necessarily wish to disclose information about for commercial reasons. For example, an auditor, A3, argued that companies did not want to disclose high growth segments and that these often got aggregated with other parts of a business.

The involvement of auditors in this aggregation decision varied from one client to another. Most auditors indicated that they were involved at the initial stages of the process. Some clients were challenged about IFRS 8-related decisions, but clients often defended their position by arguing that they were simply implementing the management approach or that the threshold rules allowed them to follow a certain procedure. For example, auditor A7 strongly believed that his role was to "rigorously challenge" clients' interpretation of new disclosure requirements, and A1 stated that clients discussed the segments that they were going to use and the measures that they were going to disclose. However, he remarked that:

> *If the client works within the bounds of the standards I have no grounds upon which to qualify* [the financial statements], *even though I may be uncomfortable that they are skirting grey areas.*

One of the preparers gave an example of where his company's decision about segmental reporting had given rise to a discussion with the auditor:

> *We concluded we didn't need to do anything. The auditors were quite unhappy with that,* [but] *we challenged them to explain, from a technical perspective, what it is we should be disclosing and they couldn't do so because they concluded, from a technical perspective, our analysis was correct.*

IFRS 8 segmental information and narrative reporting

As IFRS 8 uses the management approach there was a suggestion at the time of the standard's endorsement that the segmental note would link better to the business review in the annual report. The interviewees were therefore asked about the linkage between the business review and the segmental note and whether any differences between these two parts of the annual report was a concern. The analysis of the 150 annual reports in the current study had shown that differences sometimes existed with different segmental information provided in separate parts of the annual report. A number of interviewees thought that the segmental disclosure note should be consistent and coherent with the other parts of the annual report. For example, preparer P6 argued that such inconsistency should not arise:

It kind of suggests that the management approach isn't the management approach ...because the front half is written by them so if that's not how they are managing the business then it's not how the segment report was proposed so I think they should be streamlined.

However, some interviewees thought that the business review gave more 'granular' information than the segmental note, and that the aggregation of the segments for IFRS 8 purposes was often disaggregated in the business review; especially for smaller segments that had been combined in the note to the financial statements: For example auditor A4 noted that:

Well you clearly don't want repeat information ... you would hope there is different information in different parts... [of the annual report]. *The reader* [sh]*ould be able to see the link between one part and another and if that is particularly hard ... there might be some additional work to be done in linking the... You would expect the business review to really be* [*about how the management sees the business and if* [the] *segmental* [note] *is also meant to be how management... see the business you might... expect the* [two to] *tie up.*

Two of the preparers supported this view. For instance, P2 argued that, in his company segmental information was expanded upon a bit further in the business review, although the two were not necessarily inconsistent. P1 concurred, highlighting that his company actually went through each of the three businesses in the business review, whereas the IFRS 8 note only provided two segments because two manufacturing units were combined together.

Some of the users were critical of situations where segmental note disclosures did not align with segmental information disclosed elsewhere in the annual report. For example. U4 argued that:

It's the duty supposedly of the auditor to make sure that the two reconcile, one with the other, and it appears to me frequently that there is a general neglect of that duty... I don't think they are producing accounting information they are producing corporate spin in those [business review sections of their annual] *reports.*

One interviewee, U3, claimed that it was important for the different parts of the annual report to link together. He suggested that any inconsistency might be seen as a warning signal about the company; specifically he argued that, in the smaller capitalised part of the stock market, there had been a tendency among some companies, which subsequently ended up in financial trouble, for the business reviews not to tie up with the numbers "being reported at the back". However, he suggested that such instances were rare.

Geographical disclosures

Some interviewees were more critical about the lack of geographical disclosure required under IFRS 8. However, this criticism was not supported by the content analysis reported earlier which documented an increase in the number of geographic areas disclosed. The criticism is more pertinent to the content analysis findings that individual items disclosed for different geographic areas had declined. Interestingly, preparers and auditors seemed to indicate that companies had continued to provide similar geographical information because it had been produced under the previous standard. For example, as A2 indicated, a lot of geographic disclosures had been lost. Indeed, U4 queried whether it was management information at all as he did not believe that the board did not get information on a country-by-country basis. He made the useful point about country-specific information in companies with centralised treasury departments, where intra-group transactions hedged country risk; this could mask exposures to certain countries.

Amount of disclosure and the size of annual reports

The size of annual reports was of concern to most of the interviewees, and the content analysis of the accounts showed that the word count to the segmental note had increased – thus adding to the growing size of the annual report. The interviewees in general did not have any specific comments to make on this point, although one user commented that he was not surprised because new standards need explanations:

> *Does it surprise me? I suppose that if you're taking it seriously, disclosure had to go up because what was mandatory became discretionary and discretion does require justification. Some companies have clearly taken that justification more seriously than others.*

Another finding from the content analysis was that disclosure of certain line items, such as, capital expenditure and liabilities had decreased. An explanation was sought from the interviewees as to why this may have happened. The main reason put forward was that such information was not useful, either to users or the business. For example, P6 noted that companies had reduced the disclosure of these items because allocating them across their operating segments was not useful for the user. Auditor A3 agreed and stated that capital expenditure for companies that were not capital intensive, but more customer-based, was not an ultimate driver of performance and did not add anything in terms of value. Auditor A1 argued that it was a way of simplifying disclosures and getting rid of clutter, although this was not always successful as, once users were used to certain disclosures, they were reluctant to see them disappear - even if it was redundant information.

Another finding from the content analysis was that segmental tax disclosures had increased (from a very low base), but there was a move towards disclosing profit before tax rather than profit after tax. The views of the participants were sought on tax disclosure by segment. A majority of interviewees did not think that it was useful to publish segmental tax as most companies planned their tax on a group wide global basis; they argued that to report this information by segment would be meaningless. However, one user U4 adopted an alternative perspective when he argued that:

> *..so you're paying lots of tax in this country, that country and the other; well we only tell you the big ones, but as far as I'm concerned, zero is a really material number because, if you are transferring property rights into the Cayman Islands and you're actually paying significant fees for the use of property rights, licensing and god knows what else to your Cayman subsidiary and there's no tax paid, that, to me, is just as material as knowing that actually in Angola you did actually pay some tax.*

Materiality

This concept of materiality was an important point and user U4 stated:

> *Interestingly the EU seems to have got this idea that zero is material and it's a bit of a challenge to the conventional way of thinking. So we have sort of accepted that there is a concept of immaterial but it's not defined by zero, it's always defined by presence or not in a state and if there's a substantial presence, whether or not that is by third party sections or not it doesn't matter and it's a very different concept of materiality, but the EU do seem to get that because obviously they have some of this concept of materiality in terms of; what is a small, medium and large company, which is just literally your economical significance to society, not your economical significance within a group and that is why they seem to get it, which others don't.*

Other interviewees also raised the concept of materiality but looked at it from a risk basis. For example, auditor A2 noted that management might be focusing on managing risks that did not necessarily end up being reported as segments because of the materiality of the actual numbers. Indeed, preparer P1 thought that a threshold of materiality was needed in terms of how much the figures had to be set out by segment, and that if, for example, the information was not produced as a matter of course, information should not have to be created around segments just for the statutory accounts; if it was not used internally it was not useful. However, auditor A4 commented that, if information was missing, was it because it was "immaterial or is it missing for some other reason?"

The concept of materiality and size may relate to the size of company and the disproportionate effect that IFRS 8 has had on smaller companies. This reasoning seemed to accord with the interviewees, as one auditor A2 noted that FTSE 100 companies regarded their accounts more as a compliance exercise than market communication because they were communicating with the market in a number of different forms. Another auditor (A4), however, retorted that there was a significant difference between the top end of the FTSE 100 and the lower end of the FTSE 250 in terms of size and in terms of resources available to accounting departments. He observed that:

> *Under IFRS smaller listed companies are saying their accounts are growing by about 50% and I don't think they are feeling that there is 50% more valuable information in many cases in there.*

Comparability

The next question in the semi structured interviews concerned the comparability of annual reports and there were opposing views as demonstrated by a user and a preparer. For example, user U4 pointed out that with IFRS 8:

> *...we are definitely loosing comparability because the choice of segment and the choice of emphasis within segment reporting has been broadened and therefore what we are seeing is an inevitable loss of comparability... We are losing one of the key qualities of accounting information. As a result ...I believe that IFRS 8 is a failure.*

However, preparer P4 countered that:

> *The whole point is IFRS 8 is not supposed to be comparable with anything; it's your analysis of your results the way you run the company ... We do not seek to be comparable with anybody on that, we seek to explain our results the way we manage the business ... I mean that's why I like it; it's very much explaining how you manage the business. Yes, there is a lack of comparability with other companies possibly, both in the way you do the split and maybe the personnel involved, but that's not what it's about.*

These two comments illustrate a lack of consensus over the usefulness of IFRS 8 from the perspectives of a user compared to a preparer.

Post-implementation review

The final section of the interviews asked whether the EC or IASB should perform a post-implementation review of IFRS 8, as suggested at the time of endorsement by the EP and adoption by the IASB, respectively. An auditor (A3) reflected the views of most of the interviewees by noting that:

> *I think if they are going to spend the money they would be better off spending their time doing something else, which would be looking at the overall usefulness of the accounts not focusing in on has IFRS 8 been a good thing or not.*

However, preparer P1 thought that there might be a need to look at it again, but he was in a minority:

> *…the way that management view the business …That is a big change for some companies so I can see why there might be merit in looking at how it's gone …The fact you don't have to use GAAP to do it, for me, that seems to open up a lot of opportunity to present information in different ways and I think from a users perspective, accounts can be confusing enough already, and then to add in segmental reporting where the numbers just don't add up to necessarily the same figure, maybe not in the business review or certainly not in terms of the primary statements, you know, that would be… that would be something to focus on.*

Summary of results from interviews

In general, a majority of respondents suggested that the management approach of IFRS 8 supplied more useful information for investors in financial statements. This support for the management approach was strongest among preparers and auditors who argued that it allowed shareholders to see a business 'through the eyes of management'. However, users of financial statements were less supportive of the approach and expressed concern that preparers could potentially avoid disclosing relevant information. A majority thought that it was useful to see information produced internally for the CODM. However, only 30% of respondents believed that the identity of the CODM needed to be included in a company's financial statements. Surprisingly, not many of the interviewees appeared to understand what was meant by the term entity-wide disclosures; most saw them as a replacement for the geographic information which had been included under IAS 14R. Most preparers indicated that their firms had used non-IFRS measures when reporting their operating segments, although they had not noticed any significant increase in the use of non-IFRS measures by other companies. Two issues concerned the interviewees most, especially the preparers: disclosing commercial sensitive information and the absence of clear rules about the level of aggregation permitted when deciding upon what constituted an operating segment. In general, these concerns seemed to relate to preparers coming to terms with a standard which was less prescriptive than its previous counterpart, because of the management approach adopted.

5. CONCLUSIONS

Overall, the results have attempted to answer the two questions posed at the start of this report: whether disclosure changed after the introduction of IFRS 8; and whether stakeholders consider that IFRS 8 provides more useful information than its predecessor IAS 14R.

The findings from the analysis of the financial statements for a sample of 150 companies before and after the introduction of IFRS 8 suggest that the segmental information reported has changed. For instance, the number of segments increased on average, and the size of the segmental note rose for the typical company studied. Even the average number of geographic areas disclosed under IFRS 8 increased despite the fact that reporting requirements for geographic disclosure were less onerous under the new standard. While the number of segments typically grew with the implementation of the new standard, the mean number of items provided for each segment typically declined for the sample of companies in this study. Such a finding is not too surprising as IAS 14R had mandated a number of items that had to be disclosed for every segment. Thus, the analysis of the annual reports revealed a decline in sample companies providing information on capital expenditure and liabilities by segment. This drop was offset to some extent by a rise in the number of companies providing tax and non-current asset details on a segmental basis or entity-wide basis. However, the overall conclusion is that some information which had been disclosed, for example segmental liabilities and capital expenditure, is not now being published.

The other conclusions to emerge from the analysis of company financial statements are that the identity of the chief operating decision maker (CODM) was not provided by a sizeable number of the sample of companies. In addition, there was a greater tendency to reconcile segmental data to the aggregate information in the financial statements on a 'PBT' rather than a 'PAT' basis, although both are allowed under IFRS 8. Finally, it emerged that only a minority of companies availed themselves of the opportunity to use non-IFRS measures when reporting segmental data.

Another conclusion that emerges from the analysis is that there are some differences in the IFRS 8 reporting practices of FTSE 100 and FTSE 250 companies, with the latter typically providing less segmental disclosures. However, a worrying finding is that many companies' narrative commentaries in their annual reports often outline a different business structure from that depicted in their IFRS 8 segmental notes. In addition, the adoption of IFRS 8 varied across the sectors with companies in some industries changing their reporting practices more than others.

The interview findings generally support the results from the financial statement analysis. Most interviewees thought that segmental data was useful for decision making – especially among investors. However, there was less agreement for the view that the information provided under IFRS 8 was more useful than that which had been available under IAS 14R. While preparers generally welcomed the management approach underpinning IFRS 8, users were less positive about the introduction of the new standard. In general, users were worried about the lack of comparability among segmental disclosures of different companies, some thought that the identity of the CODM should be disclosed, and believed that more explanation was needed about the role and purpose of the entity-wide disclosures. Preparers believed that the flexibility offered under IFRS 8 allowed companies to provide more useful information to users of financial statements – such as profit before unusual items (or 'bad bits') – and offered insights into how the operations of a company were internally viewed within a business.

The main issues concerning IFRS 8 highlighted by the interviewees related to: (i) having to disclose commercially sensitive information; (ii) the level of aggregation associated with the identification of the segments; and (iii) the issue of materiality thresholds before a unit had to be identified separately in the annual report. In these cases, concern was expressed that IFRS 8 needed revisiting in order to provide clearer guidance on what companies should do. In the case of commercial sensitivity, the preparers felt that the omission of an 'opt-out' provision was problematic. With the issue of aggregation, there was general agreement that some clarity was needed on how a reportable segment could be identified. Auditors found the standard uncontroversial and expressed their role as being one to challenge preparers on implementation issues relating to any new standard.

Overall, the issues raised by some of the interviewees, particularly the users, and the findings that emerge from the financial statement analysis suggest that a continued review of the standard on segmental reporting (IFRS 8) would be worthwhile.

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APPENDIX 1

Comparison of the requirements of IAS 14R and IFRS 8

	IAS 14 (Revised)	IFRS 8
Approach	Risks and rewards approach	Management approach
Identification of segments	Segments are normally identified based on an entity's internal organisational and financial reporting structure (para 27).	Segments are identified on the basis of internal reports that are regularly reviewed by the chief operating decision maker (IN 11, para 5).
Definition of segments	A distinguishable component of an entity that is subject to different risks and rates of return from other segments (para 9).	A business activity whose operating results are regularly reviewed by the chief operating decision maker to allocate resources and assess performance, and for which discrete financial information is available (para 5).
Types of segment	Business segment and geographical segment.	Operating segments.
Measurement	Segment information shall be prepared in accordance with the accounting policies adopted for the preparation of financial statements. The standard defines how segment revenue, expense, result, assets and liabilities should be calculated (para 16). The standard requires disclosure of the basis of pricing inter-segment transactions.	Segment information shall be measured as reported internally to the CODM; IFRS compliant measurement is not required. The standard requires an explanation of how segment result and assets are measured, and, if disclosed, segment liabilities (para 27). The standard requires disclosure of the basis of accounting for inter-segment transactions (para 27).
General information disclosures	Types of activity in each business segment; Composition of each geographical segment (para 81).	Factors used to identify reportable segments; Types of activity from which reportable segments earn revenues (para 22).
Reconciliation	Primary segment – reconciliation: Segment revenue to entity revenue from external customers; Segment result to entity result; Segment assets to entity assets; Segment liabilities to entity liabilities (Para 67).	Operating segments – reconciliation Segment revenue to entity revenue; Segment result to entity result; Segment assets to entity assets; Segment liabilities (if reported) to entity liabilities.

	IAS 14 (Revised)	IFRS 8
Approach	Risks and rewards approach	Management approach
Segment disclosures	Primary segment - required: Segment revenue from external customers; Segment revenue from other segments; Segment result from continuing and discontinuing operations; Carrying amounts of segment assets; Segment liabilities; Capital expenditure; Depreciation and amortisation expense; Significant non-cash expenses; Share of result and investment in equity method investments. Primary segment - encouraged: Any other material item relevant to explain segment performance Secondary segment - required: Segment revenue to external customers; Carrying amount of segment assets; Capital expenditure.	Operating segments: Segment result; Total assets. Disclose if regularly reviewed by the CODM: Segment liabilities. Disclose if included in segment result and reviewed by CODM: Segment revenue from external customers; Segment revenue from other segments; Interest revenue and expense; Depreciation and amortisation expense; Other material income/ expense items; Share of result in equity method investments; Income tax expense or income; Significant non-cash expenses.
Entity-wide disclosures	n/a	If the information is available, disclose using measures consistent with the entity's financial statements: Revenue from external customers for each product/service (para 32). Information about geographical areas (para 33): Revenue from external customers attributed to, and the non-current assets for, the entity's country of domicile and to all foreign countries in total. Information about major customers: Revenue from significant customers and segments reporting that revenue (para 34).

Note: This table compares IAS 14R approach and requirements to those of IFRS 8. Adapted from Crawford *et al.* (2010).

APPENDIX 2

Companies in content analysis

Panel A: FTSE 100					
Name	MNEM	Industry	Sector	Market value (£m)	Early adopters
Admiral Group	ADM	Insurance brokers	4	3131	E
Aggreko	AGK	Business support systems	6	2540	
Alliance Trust	ATST	Investment trusts	4	2603	
Amec	AMEC	Oil equipment and services	7	35486	
Anglo American	AAL	General mining	1	9607	
Antofagasta	ANTO	General mining	1	2290	
Arm Holdings	ARM	Semiconductors	8	6500	E
Associated British Foods	ABF	Food products	2	42152	
AstraZeneca	AZN	Pharmaceuticals	5	3627	
Autonomy Corporation	AU.	Software	8	10911	
Aviva	AV.	Life insurance	4	12711	E
BAE Systems	BA.	Defence	6	31068	E
Barclays	BARC	Banks	4	37853	E
BG Group	BG.	Integrated oil and gas	7	123983	E
BHP Billiton	BLT	General mining	1	112817	
BP	BP.	Integrated oil and gas	7	40357	
British Airways	BAY	Airlines	3	4015	E
British American Tobacco	BATS	Tobacco	2	9860	
British Land	BLND	Retail REITS	4	10636	E
British Sky Broadcast Group	BSY	Broadcast & entertain	3	2564	
BT Group	BT.A	Fixed line telecom	9	4622	
Bunzl	BNZL	Business support systems	6	4637	
Burberry Group	BRBY	Clothing and accessory	2	3115	
Cable & Wireless WWD	CW.	Fixed line telecom	9	17088	
Cairn Energy	CNE	Exploration and production	7	14464	E
Capita Group	CPI	Business support systems	6	8402	
Carnival	CCL	Recreational services	3	27141	
Centrica	CAN	Gas distribution	7	14423	
Cobham	COB	Aerospace	6	11738	
Compass Group	CPG	Restaurants and bars	3	6290	E
Diageo	DGE	Distillers and vintners	2	5580	
Eurasian Natural Recourses Corporation	ENRC	General mining	1	3666	
Experian	EXPN	Business support systems	6	1812	

Panel A: FTSE 100 (Cont)					
Name	MNEM	Industry	Sector	Market value (£m)	Early adopters
Fresnillo	FRES	Platinum and precious metal	1	68552	
G4S	GFS	Business support systems	6	3676	
GlaxoSmithKline	GSK	Pharmaceuticals	5	2864	
Hammerson	HMSNO	Retail REITS	4	1395	E
Home Retail Group	HOME	Broadline retailers	3	123679	
HSBC HDG.	HSBA	Banks	4	2767	
ICAP	IAP	Investment services	4	1662	
Imperial Tobacco Group	IMT	Tobacco	2	19943	
Immarsat	ISAT	Mobile telecom	9	3189	
International Hotels Group	IHG	Hotels	3	2567	
International Power	IPR	Electricity	10	4706	
Intertek Group	ITRK	Business support systems	6	4701	
Invensys	ISYS	Software	8	1978	
Investec	INVP	Investment services	4	3549	E
Johnson Matthey	JMAT	Speciality chemicals	1	2096	
Kazakhmys	KAZ	General mining	1	3257	
Kingfisher	KGF	Home improvement retail	3	7038	
Land Securities Group	LAND	Industrial and office REITS	4	5397	
Legal & General	LGEN	Life insurance	4	4967	E
Liberty International	LII	Retail REITS	4	4563	
Lloyds Banking Group	LLOY	Banks	4	31785	
London Stock Exchange Group	LSE	Investment services	4	3748	
Lonmin	LMI	Platinum and precious metal	1	5207	
Man Group	EMG	Asset managers	4	6334	
Marks & Spencer Group	MKS	Broadline retailers	3	7271	
Morrison (WM) Supermarkets	MORW	Food retail, wholesale	3	16635	
National Grid	NG.	Multiutilities	10	4076	
Next	NXT	Apparel retailers	3	5758	E
Old Mutual	OML	Life insurance	4	7195	E
Pearson	PSON	Publishing	3	3556	E
Petrofac	PFC	Oil equip & services	7	15964	
Prudential	PRU	Life insurance	4	4479	
Randgold Resources	RRS	Gold mining	1	24110	
Reckitt Benckiser Group	RB.	Nondurable household products	2	11692	E
Reed Elsevier	REL	Publishing	3	2149	
Rexam	REX	Containers and package	6	2525	

Panel A: FTSE 100 (Cont)					
Name	MNEM	Industry	Sector	Market value (£m)	Early adopters
Rio Tinto	RIO	General mining	1	76662	
Rolls-Royce Group	RR.	Aerospace	6	8933	
Royal Bank Of Scotland Group	RBS	Banks	4	16392	E
Royal Dutch Shell	RDS	Integrated oil and gas	7	115757	E
RSA Insurance Group	RSA	Full line insurance	4	4088	E
SABMiller	SAB	Brewers	3	28949	
Sage Group	SGE	Software	8	2917	
Sainsbury (J)	SBRY	Food retail, wholesale	3	5904	
Schroders	SDR	Asset managers	4	3621	
Scottish and Southern Energy	SSE	Electricity	10	10735	
Segro	SGRO	Industrial and office REITS	4	2573	
Serco Group	SERC	Business support systems	6	2586	
Severn Trent	SVT	Water	10	6778	
Smith & Nephew	SN.	Medical equipment	5	3918	
Smiths Group	SMIN	Divers industrials	6	31498	E
Standard Chartered	STAN	Banks	4	4678	
Standard Life	SL.	Life insurance	4	2009	
Tesco	TSCO	Food retail, wholesale	3	33617	
Thomas Cook Group	TCG	Travel and tourism	3	10426	
TUI Travel	TT.	Travel and tourism	3	56746	
Tullow Oil	TLW	Exploration and production	7	3428	
Unilever(UK)	ULVR	Food products	2	7119	
United Utilities Group	UU.	Water	10	75456	
Vedanta Resources	VED	General mining	1	1510	
Vodafone Group	VOD	Mobile telecom	9	2438	E
Whitbread	WTB	Restaurants and bars	3	3525	
Wolesley	WOS	Industrial suppliers	6	1622	E
WPP	WPP	Media agencies	3	7611	
Xstrata	XTA	General mining	1	32682	
3i Group	III	Private equity	4	2719	

Panel B: FTSE 250					
Name	MNEM	Industry	Sector	Market value (£m)	Early adopters
Aegis Group	AGS	Media agencies	3	1359	
Amlin	AML	Property and casualty insurance	4	1789	
Babcock International	BAB	Business support systems	6	1370	
Balfour Beatty	BBY	Heavy construction	6	1769	
Bodycote	BODY	Industrial machinery	6	304	
Book group	BOK	Food retail, wholesale	2	701	
Brit Insurance Holding. NV	BRE	Property and casualty insurance	4	626	
Charter International	CHTR	Industrial machinery	6	1211	
Carillion	CLLN	Business support systems	6	1210	
Colt group	COLT	Fixed line telecom	9	1193	E
Cable and Wireless Communications	CWC	Fixed line telecom	9	3637	
Cranswick	CWK	Food products	2	369	
Dairy Crest	DCG	Food products	2	474	
Debenhams	DEB	Broad line retailers	2	1002	
Daejan Holdings	DJAN	Real estate holdings and developers	4	447	
Dunelm Group	DNLM	Home improvement retail	2	823	
DSG International	DSGI	Speciality retailers	2	4148	E
Electrocomp	ECOM	Industrial suppliers	6	714	
Euromoney Institutional Investor	ERM	Publishing	3	501	
F&C Coml. Property Trust	FCPT	Investment trusts	4	606	
Gem diamonds	GEMD	Diamonds and gemstones	1	319	
Hayes	HAS	Business training& employment	6	1426	
Henderson group	HGG	Asset managers	4	1033	
Hargreaves Lansdown	HL	Asset managers	4	1395	
Heritage oil	HOIL	Exploration and production	7	1265	
Hansteen Holdings	HSTN	Industrial & office REITS	4	367	
Homeserve	HSV	Business support systems	6	1113	E
Intermediate Capital Group	ICP	Speciality finance	4	1060	
Informa	INF	Publishing	3	1910	
Wetherspoon	JDW	Restaurants and bars	3	591	

Panel B: FTSE 250 (Cont)					
Name	MNEM	Industry	Sector	Market value (£m)	Early adopters
JKX Oil & Gas	JKX	Exploration and production	7	444	
Kesa Electricals	KESA	Speciality retailers	2	798	
Logica	LOG	Computer services	8	1821	
Morgan Crucible	MGCR	Electrical equipment	6	429	
Misys	MISY	Software	8	1198	
Millennium and Copthorne Hotels	MLC	Hotels	3	1142	
Mondi	MNDI	Paper	6	1746	
Melrose	MRO	Industrial machinery	6	910	
Mothercare	MTC	Broadline retailers	2	599	
Punch Taverns	PUB	Restaurants and bars	3	444	
RIT Capital Partners	RCP	Investment trusts	4	1596	
Rightmove	RMV	Media agencies	3	572	
Rathbone Brothers	RTBN	Asset managers	4	342	
Redrow	RDW	Home construction	2	403	
Salamander Energy	SMDR	Exploration and production	7	454	
St Modwen Properties	SMP	Real estate holdings and developers	4	361	
Sports Direct International	SPD	Apparel retailers	3	578	
Stobart Group	STOB	Transport services	6	310	
Synergy Health	SYR	Health care providers	5	359	
Travis Perkins	TPK	Industrial suppliers	6	1710	
TR Property Sigma Shares	TRYS	Investment trusts	4	464	

Note: This appendix lists the companies used in the content analysis along with their sector, market value as at 30-12-2009 and whether they were early adopters (E) of IFRS 8. The FTSE 100 sample comprised 99 companies from the FTSE 100 as Shire was excluded because only accounts in US GAAP were available. The FTSE 250 sample comprised 51 companies from the FTSE 250 as at 30–12–2009. This was a random sample using random numbers generated by excel. The lists of companies were obtained from Datastream. MNEM is the mnemonic representing the Datastream code for each of the companies in the sample. The names of sectors 1-10 are given in Table 8, Panel A.

APPENDIX 3

Usefulness of IFRS 8: Selected questions and responses by interviewee

Panel A: Selected questions: Preparers						
Selected questions: Preparers	P1	P2	P3	P4	P5	P6
Is segmental information useful?	Yes	Yes	M	Yes	Yes	Yes
Do you think the management approach of IFRS 8 is more useful than the previous approach?	Yes	Yes	Yes	Yes	Yes	Yes
Do you think operating segments are more useful than primary and secondary segments?	Yes	Yes	Yes	S	No	Yes
Is it useful to see information produced internally for the CODM?	Yes	Yes	Yes	Yes	Yes	Yes
Is it useful for users to know who the CODM is?	No	No	Yes	No	No	No
Are entity-wide disclosures useful?	NA	NA	No	S	NA	Yes
Is it useful to report segments using non-IFRS measures?	NA	Yes	Yes	Yes	Yes	No
Is the amount and nature of the reconciling item(s) useful to users?	Yes	Yes	Yes	NA	Yes	Yes

Panel B: Selected questions: Auditors							
Selected questions: Auditors	A1	A2	A3	A4	A5	A6	A7
Is segmental information useful?	Yes	Yes	Yes	M	M	Yes	Yes
Do you think the management approach of IFRS 8 is more useful than the previous approach?	Yes	No	Yes	M	M	No	M
Do you think operating segments are more useful than primary and secondary segments?	M	No	M	NA	M	No	M
Is it useful to see information produced internally for the CODM?	Yes	M	Yes	M	NA	NA	Yes
Is it useful for users to know who the CODM is?	NA	Yes	No	NA	No	NA	Yes
Are entity-wide disclosures useful?	M	Yes	NA	NA	Yes	Yes	M
Is it useful to report segments using non-IFRS measures?	NA	Yes	Yes	No	NA	No	M
Is the amount and nature of the reconciling item(s) useful to users?	Yes	Yes	No	Yes	NA	Yes	No

Panel C: Selected questions: Users							
Selected questions: Users	U1	U2	U3	U4	U5	U6	U7
Is segmental information useful?	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Do you think the management approach of IFRS 8 is more useful than the previous approach?	Yes	Yes	No	No	Yes	No	M
Do you think operating segments are more useful than primary and secondary segments?	NA	No	NA	No	Yes	No	S
Is it useful to see information produced internally for the CODM?	NA	Yes	NA	Yes	Yes	M	M
Is it useful for users to know who the CODM is?	NA	Yes	NA	Yes	M	Yes	No
Are entity-wide disclosures useful?	NA	NA	NA	No	Yes	NA	Yes
Is it useful to report segments using non-IFRS measures?	Yes	No	NA	M	M	No	M
Is the amount and nature of the reconciling item(s) useful to users?	No	Yes	NA	M	M	Yes	Yes

Note: This table shows the responses to selected questions from the interviews by the auditors, users and preparers.

NA = Not answered

S = Same usefulness before and after IFRS 8 implementation

M = Mixed yes and no

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ABOUT SATER

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SATER is happy to receive grant applications for research projects from within and outwith the University sector, so long as these utilise sufficiently robust research methodology and the results from the project are likely to provide public benefit.

SATER considers a broad range of grant applications from anywhere in the world. These do not have to be solely for research projects but can be for other research or education initiatives within SATER's specific subject areas, and must be expected to provide public benefit.

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Further details about SATER and the ICAS research programme can be found from the SATER and ICAS websites: scottishaccountancytrust.org.uk/research.html and icas.org.uk/research.

David Spence
Chairman of SATER
April 2012

IFRS 8 Operating Segments was to some extent a ground-breaking standard, as it represented the IASB's first foray into the territory of requiring companies to disclose information through the eyes of management. For that reason it was contentious. This study investigates the issues surrounding the implementation of IFRS 8 and considers two research questions: first, it examines whether the segmental disclosures by UK companies changed after their adoption of IFRS 8 and, second, it canvasses, through interview, the views of users, preparers and auditors of accounts as to whether or not IFRS 8 produces more decision-useful information than was the case with its predecessor, IAS 14R.

This study is published to coincide with the IASB's post-implementation review of IFRS 8. In addition to the interviews of users, preparers and auditors, it involved a review of the annual reports of 150 UK companies (99 FTSE 100 and 51 FTSE 250 companies) in the year before and the year after IFRS 8 was implemented. The report concludes with several recommendations for the IASB, preparers and auditors to consider.

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